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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Consolidated text on principles, modalities, rules and guidelines

Note by the Chairmen

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INTRODUCTION

A. Mandate

1. The Conference of the Parties (COP), at its fifth session, by decision 14/CP.5, requested the subsidiary bodies, at their sessions prior to the sixth session of the COP, to take forward the consolidated text as a basis for further negotiations on principles, modalities, rules and guidelines on mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol, with priority given to the clean development mechanism (CDM), and with a view to the Conference of the Parties taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Protocol (COP/MOP) at its first session.

2. By the same decision, the COP also requested the chairmen of the subsidiary bodies to convene inter-sessional meetings and workshops to assist in undertaking preparatory work for the COP at its sixth session, drawing on technical expertise, as appropriate, taking into account the need for transparency, regional balance in representation and the need for review of the experts' work by Parties.

3. Upon the request of the chairmen, informal consultations by invitation only (Bonn, 21-22 August 2000) and a workshop on mechanisms (during the week prior to the thirteenth sessions of the subsidiary bodies in Lyon, France) will be convened and chaired by Mr. Chow Kok Kee (Malaysia). An oral report on these events will be made by Mr. Chow to the thirteenth sessions of the subsidiary bodies.

B. Scope of the note

4. This note by the chairmen contains the consolidated text as a basis for further negotiations for consideration at the thirteenth sessions of the subsidiary bodies. This consolidated text is based on an informal note by the Chairman of the workshop on mechanisms, held in Bonn, Germany, from 5-8 June 2000, which was considered by the subsidiary bodies at their twelfth sessions, and additional views presented by Parties during these sessions.

5. The subsidiary bodies, at their twelfth sessions, urged Parties, if they wished to make additional submissions, to do so in succinct, legal language and directly related to the text in document FCCC/SB/2000/4 by 1 August 2000 for inclusion in a miscellaneous document to be issued before the thirteenth sessions of the subsidiary bodies. Later submissions would be issued at the thirteenth sessions.

C. Approach

6. This consolidated text is structured in four parts relating to: Article 6 projects, CDM, emissions trading and registries. Each of these parts consists of the following:

(a) A draft decision including, inter alia, a segment on principles (except for the registries decision). The format of COP and COP/MOP decisions is utilized in this note to demonstrate how its elements could be articulated. Italics have been used to indicate the tentative nature of this format. The format of such decisions may need to be harmonized and is therefore subject to adjustment;

(b) An annex which contains modalities, procedures, rules and guidelines, as appropriate;

(c) Appendices which address issues such as determining "part of"/supplementarity, standards and procedures for accreditation, reference manuals, modalities for establishing an adaptation fund, and reporting.

7. Individual draft decisions, such as those mentioned in paragraph 6, may be covered by one common draft decision for consideration by the Conference of the Parties at its sixth session.

8. Wherever consolidation and convergence seemed possible, the chairmen have proposed a single text; otherwise, numbered options and brackets. Where text has been placed within the symbols "> (text) <" it indicates that a Party or Parties expressed reservations regarding the respective part of the text during the twelfth sessions of the subsidiary bodies.

9. In considering this draft consolidated text, Parties may wish to bear in mind that all submissions by Parties contained in miscellaneous documents on mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol remain under consideration.

D. Possible action by the subsidiary bodies

10. The subsidiary bodies may wish to take note of this document and provide guidance to the chairmen on how to take forward this consolidated text as a basis for further negotiations.

11. Parties may wish in particular to identify elements of additional work to be carried out before and after COP 6 and any resource implications.

PART ONE
ARTICLE 6 OF THE KYOTO PROTOCOL

I. *[Draft decision [A/CP.6]: Guidelines for the implementation of Article 6 of the Kyoto Protocol*

The Conference of the Parties,

Recalling Article 6 of the Kyoto Protocol,

Recalling its decision 1/CP.3, in particular paragraph 5 (c),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session on, inter alia, guidelines concerning provisions under Article 6 of the Kyoto Protocol,

Recalling also its decision 8/CP.4,

Recalling further its decision 14/CP.5,

1. *Urges* the Parties concerned to facilitate the participation in Article 6 project activities of Parties included in Annex I[1] >with economies in transition<[2];

2. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session after the entry into force of the Protocol, adopt the following decision:

Decision -/CMP.1]

Guidelines for the implementation of Article 6 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account provisions contained in Articles 3 and 6 of the Kyoto Protocol,

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[1] "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention.

[2] The symbols ">" and "<" indicate that a Party or Parties expressed reservations regarding the text placed between the symbols during the twelfth sessions of the subsidiary bodies.

Bearing in mind that, in accordance with Article 6, any Party[3] included in Annex I may participate in Article 6[4] project activities for the purpose of meeting its commitments under Article 3 and that any acquisition of emission reduction units shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to this decision],

Also bearing in mind [Article 3, paragraphs 10 and 11] [that, in accordance with Article 3, paragraph 10, of the Kyoto Protocol, any emission reduction units, or any part of an assigned amount, which a Party acquires from another Party in accordance with the provisions of Article 6 or of Article 17 shall be added to the assigned amount for the acquiring Party and that, in accordance with Article 3, paragraph 11, of the Kyoto Protocol, any emission reduction units, or any part of an assigned amount, which a Party transfers to another Party in accordance with the provisions of Article 6 or of Article 17 shall be subtracted from the assigned amount for the transferring Party],

Affirming that, in their actions to achieve the purpose of Article 6, Parties shall be guided by Article 3 of the Convention and, inter alia, the following considerations:

>Equity: Equity relates to equitable emission entitlements. Developed countries shall contract greenhouse gas emissions to reduced levels with per capita emission levels in developed and developing countries coming on a converging path, so as to avoid perpetuating existing inequities between Parties included in Annex I and Parties not included in Annex I;<

>Recognizing that the Protocol has not created or bestowed any right, title or entitlement to the Parties included in Annex I and in Annex B and that it has not created an international market system or regime;<

[Comprehensiveness: Projects under Article 6 shall comprehensively cover all relevant sources, sinks and reservoirs of greenhouse gases, adaptation, and shall comprise all economic sectors;]

>Transparency;<

[Climate change effectiveness: Any Article 6 project activity, in accordance with paragraph 1 (b) of Article 6, shall provide a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur],

Fungibility/non-fungibility: Parties [may] [may not] exchange emission reduction units[, certified emission reductions] and [assigned amount units][parts of assigned amount] [in accordance with rules and procedures established by the COP/MOP which are to ensure their effective environmental equivalence],

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[3] 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

[4] 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

Having considered decision A/CP.6,

1. Decides to adopt the guidelines for the implementation of Article 6 contained in the annex to this decision;

2. [Decides that the share of proceeds to be used in accordance with Article 12, paragraph 8, shall be applied to Article 6 projects and shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund. The share of proceeds for assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol];

3. Decides that the distribution of the emission reduction units will be determined by the Parties and any legal entities involved;

4. Option 1: Decides to review and, where appropriate, revise the guidelines contained in the annex and any guidelines established thereunder. This shall be done for the first time no later than the year [2012] and periodically thereafter. Revisions shall not affect [the first commitment period and] already [approved][registered] project activities;

Option 2: Decides that the Subsidiary Body for Scientific and Technological Advice[5] may consider the possible revision of these guidelines taking into account the relevant experience of Parties. Revisions should not affect the first commitment period and project activities under way;

5. Requests [the secretariat of the Convention] to perform functions assigned to it as contained in the annex to this decision[6].]

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[5] In accordance with provisions contained in Article 15 of the Kyoto Protocol.

[6] The resource implications of this operative paragraph will need to be specified.

II. Annex

GUIDELINES FOR THE IMPLEMENTATION OF ARTICLE 6 OF THE KYOTO PROTOCOL

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

Option A:

(Note: There is no provision for a role of the COP/MOP beyond the provisions of Article 6.)

Option B (paras 1 to 4):

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall exercise its authority over and provide guidance regarding the implementation of Article 6[1] by:

(a) Approving rules and procedures for the preparation and distribution of the provisional agenda of [executive board[2]] meetings and for presentations to be made to the [executive board] by Parties and accredited observers;

(b) Considering recommendations by the [executive board] submitted in accordance with provisions in this annex and taking decisions, as appropriate;

(c) Considering annual reports of the [executive board] and, if appropriate, providing guidance to the [executive board] regarding issues such as methodologies for determining baselines; guidelines for monitoring, verification, certification, accreditation and reporting; and the reporting format.

2. >The COP/MOP [may] [shall] consider appeals against decisions taken by the [executive board]. The COP/MOP may, upon request of [x] Parties or on its own initiative, review, modify, or overrule any decision or other action of the [executive board] based on technical and procedural advice provided by the SBSTA and the SBI[3]. The COP/MOP shall make a final decision within [x] [months] [sessions] after a request has been made by [x] Parties.<

3. [The COP/MOP shall accommodate appeals from Parties included in Annex I, proponents of Article 6 project activities or public or private entities affected by such project activities.]

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[1] 'Article' means an article of the Protocol, unless otherwise indicated.

[2] Whenever the term [executive board] is mentioned, it should be read as [executive board][of the CDM]].

[3] In accordance with Article 15 of the Kyoto Protocol.

4. >Arbitration of disputes between Parties shall be undertaken in accordance with Article 14 of the Convention.<

B. [Executive board [of the clean development mechanism]]

Option A:

(Note: There is no provision in Article 6 for an executive board.)

Option B (paras 5 to 10):

5. The [executive board] shall assume supervisory functions over Article 6 project activities to ensure that they are in conformity with the Convention, the Protocol and all relevant decisions of the COP/MOP. The [executive board] shall be responsible for carrying out functions and mandates mentioned in this decision, its annex and relevant decisions of the COP/MOP. The [executive board] shall be fully accountable to the COP/MOP [as a separate standing body of the COP/MOP].

6. The [executive board] shall, inter alia:

(a) [Assure that, as far as possible, Article 6 project activities shall cover all relevant sources, sinks and reservoirs of greenhouse gases, adaptation, and shall comprise all economic sectors;]

(b) >>Revise and amend the areas in which Article 6 project activities can be undertaken and the types of project activities that can be included [and submit recommendations for adoption to the COP/MOP] as well as< determine new baseline and monitoring methodologies in accordance with the provisions in section G on validation below [and submit recommendations for adoption to the COP/MOP];<

(c) Provide guidance to legal entity participants[4] following decisions of the COP/MOP;

(d) >Facilitate, as appropriate, a specific mechanism to be established by the COP/MOP to assist Parties included in Annex I[5], in particular those with economies in transition, with the capacity-building required to participate in Article 6 project activities<, and [recommend][assign], as appropriate, functions to other institutions under Article 6 within the framework provided for by the COP/MOP [and define the roles of multilateral agencies, especially as regards the development of the institutional capability required to promote broad participation by all Parties included in Annex I, in particular those with economies in transition][and submit recommendations for adoption to the COP/MOP];

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[4] 'Legal entity participants' refers to "legal entities" mentioned in Article 6, paragraph 3.

[5] 'Party included in Annex I' means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention.

(e) Recommend to the COP/MOP decisions on rules and procedures for the efficient functioning of the [executive board] on, inter alia, the preparation and distribution of the provisional agenda of [executive board] meetings and for presentations to be made to the [executive board] by Parties[6] and accredited observers;

(f) Make public [all non-confidential information for project activities, including registered project design documents, public comments received, verification reports, its decisions and all ERUs[7] issued][relevant non-confidential information on the registration of Article 6 project acitivities including the identification number];

(g) Report to each session of the COP/MOP on its activities, new projects registered and ERUs issued and prepare recommendations for consideration by COP/MOP, as appropriate.

(Note: No provisions are included here on the composition of the executive board, on the assumption that provisions under the CDM would apply.)

(Note: The following paragraphs concern the relation between the [executive board] and "independent entities", whose functions are described in section D below. Parties may wish to consider that under the CDM the term "operational entities" is being used.)

7. >The [executive board] shall be the accreditation body for independent entities.< [The executive board] shall maintain a publicly available list of all independent entities.

8. The [executive board] may suspend or withdraw the accreditation of an independent entity if it finds that it no longer meets the accreditation standards or applicable requirements contained in decisions of the COP/MOP. The [executive board] shall immediately notify the affected independent entity and the COP/MOP of such action. >Registered project activities shall not be affected by the suspension or withdrawal of accreditation unless deficiencies identified in the validation report, verification report or certification for the project activity constitute the reason for the suspension or withdrawal of the accreditation.< Any decision taken by the [executive board] to withdraw accreditation shall be taken only after the independent entity has had the possibility of a hearing. The executive board shall make its decision on such a case public.

9. The [executive board] may review the accreditation standards, as appropriate, and recommend any revisions and amendments to the COP/MOP for adoption.

(The following paragraph relates to the share of proceeds.)

10. The [executive board] shall assess the share of proceeds [referred to in Article 12, paragraph 8,] upon receiving a request for ERUs to be issued. The [executive board] shall deduct the appropriate [share of proceeds] [number of ERUs] from the quantity of ERUs to be

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[6] 'Party means a Party to the Protocol, unless the context indicates otherwise

[7] An 'emission reduction unit' (ERU) is defined in accordance with the annex to decision D/CP.6.

issued as a result of the project activity, prior to their allocation to project participants[8]. The amount of the share of proceeds to be used to cover administrative expenses shall be retained by the [executive board] for this purpose. The [remaining] amount of the share of proceeds to be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation shall be transferred to an adaptation fund established by the [COP] [COP/MOP].<

C. Accreditation body

Option A:

(Note: There is no provision in Article 6 for an accreditation body.)

Option B (paras 11 to 14):

11. The accreditation body shall accredit independent entities, in accordance with the standards and procedures contained in appendix A and relevant decisions by the [executive board] [COP/MOP].

12. >If the information supplied by an independent entity in respect of the accreditation criteria is insufficient to make a decision about accreditation, the accreditation body may carry out a competence analysis in cooperation with the independent entity. This would:

(a) Comprise an assessment of skills in response to evaluated needs;

(b) Cover the requirements of each relevant technical area;

(c) Demonstrate that the independent entity is able to identify the typical technical areas, environmental aspects and associated impacts of Article 6 project activities.<

13. At regular intervals not exceeding [x] years, as well as through spot-checking at any stage, the accreditation body shall review whether the independent entity continues to comply with the accreditation standards, including, as appropriate:

(a) Auditing of relevant functions and activities of the independent entity;

(b) Monitoring the quality of the validation, verification and/or certification operations undertaken, including work subcontracted.

14. In reviewing independent entities, the accreditation body may request further information from them and/or project participants, as necessary.

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[8] 'Participant' means a Party, a legal entity resident in a Party, or both, that has entered into a contractual agreement [on] [to implement] an Article 6 project activity.

D. Accredited independent entities

Option A:

(Note: There is no provision in Article 6 for independent entities.)

Option B (paras 15 to 16):

15. Accredited independent entities shall be responsible for carrying out functions referred to in sections D, G-K and in the annex to this decision as well as in other relevant decisions of the COP/MOP [and the executive board].

16. An accredited independent entity shall:

(a) Be accredited by the COP/MOP through the accreditation body;

(b) Be supervised by the [executive board][and the designated national authority for Article 6 project activities of the host Party] and be fully accountable to the COP/MOP, through the [executive board];

(c) [Be authorized by the designated national authority for Article 6 project activities of the host Party to operate therein.][Comply with applicable laws of the Parties hosting Article 6 project activities which it validates, verifies and/or certifies];

(d) Be subject to modalities and procedures specified in applicable decisions of the COP/MOP [and the executive board];

(e) Inform immediately the accreditation body of any changes in its situation pertaining to accreditation criteria. If the accreditation body is satisfied that the change in circumstances does not breach the accreditation criteria, it shall confirm the accreditation of the independent entity;

(f) Not verify and/or certify reductions in emissions by sources and/or enhancement of removals by sinks from a project activity which it has validated;

(g) Maintain and publish a list of all project activities which it has validated, or for which it has verified and/or certified reductions in emissions by sources and/or enhancement of removals by sinks, including, as applicable, an identification of subcontractors used for any such function;

(h) Submit annual activity reports to the [executive board] in accordance with appendix A. The required documentation and records system, identified in appendix A, shall form the basis for the annual report.

E. Participation

17. Participation in an Article 6 project activity is voluntary.

Option 1 (para 18):

18. A Party included in Annex I may use ERUs to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3 [to make up for shortfalls in achieving its emission commitments under Article 3, subject to supplementarity provisions,] if it:

(a) Has ratified the Protocol;

(b) [Is in compliance] [Has not been found to be in non-compliance] with its commitments under Articles 5 and 7 >and Article 12 of the Convention< [in relation to emission inventories and accounting for assigned amount], the rules and guidelines established for Article 6 project activities, and relevant provisions of the Protocol;

(c) Is bound by a compliance regime adopted by the COP/MOP and has not been excluded from participation in Article 6 project activities according to its procedures and mechanisms>, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17<;<

(d) >[Adheres to] [Complies with] the provisions on registries contained in decision D/CP.6;<

(e) [Has achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X.]

Option 2 (paras 19 and 20):

19. Prior to the start of the first commitment period, the expert review teams established under Article 8 shall review the observance by Parties of the following eligibility criteria for transfers and acquisitions under the provisions of Article 3:

(a) Ratification of the Protocol;

(b) >Being bound by a compliance regime adopted by the COP/MOP and not having been excluded from participation in Article 6 project activities according to its procedures and mechanisms>, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17<;<

(c) The implementation of a national system for the estimation of anthropogenic emissions by sources and removals by sinks in accordance with the guidelines set out in decision -/CP.6;

(d) The establishment of a national registry system to track parts of an assigned amount, certified emission reductions and emission reduction units transferred or acquired under the provisions of Article 3, paragraphs 10, 11 and 12, in accordance with the guidelines set out in decision D/CP.6;

(e) The completeness and accuracy of the base year greenhouse gas emissions inventory and greenhouse gas inventory report to standards [to be] established in a decision of the COP/MOP;

(f) The timely submission, completeness and accuracy of the last available annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(g) The submission of the last required periodic national communication, in accordance with the guidelines specified in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].

20. After the start of the first commitment period, the compliance body shall, based on the information submitted by the expert review teams, review and make decisions on the continuing observance of the following eligibility criteria by Parties:

(a) Submission of the annual greenhouse gas inventory and annual greenhouse gas inventory report by the date decided by the COP/MOP;

(b) Completeness and accuracy of the annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(c) Maintenance of the national registry system in accordance with the guidelines contained in decision D/CP.6;

(d) Submission of periodic national communications, in accordance with the guidelines contained in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].

21. >A Party operating under Article 4 [may] [may not] [acquire] [transfer] [use] ERUs resulting from Article 6 project activities [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.<

22. A legal entity resident in a Party included in Annex I may participate in Article 6 project activities with the approval of that Party, if:

(a) The Party [may use ERUs to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3] [has not been excluded from participation in Article 6 activities];

(b) >The entity is in compliance with the rules and guidelines established for Article 6;<

(c) >The entity is in compliance with guidance provided by [the executive board] [its national government].<

23. A Party may develop national guidelines, consistent with guidelines here established, for the participation in Article 6 project activities of that Party and of legal entities resident in or operating in the jurisdiction of that Party. The Party shall publish such national guidelines.

24. A Party participating in an Article 6 project activity shall:

(a) >Designate a national authority to approve Article 6 project activities;<

(b) >Develop and publish a legal and institutional framework, including procedures, for consideration and approval of project [design documents] [proposals];<

(c) >Approve each Article 6 project activity based on a project [design documents] [proposals];<

(d) >Provide a formal letter of approval from the designated national authority to project participants to demonstrate its approval of each project [design document] [proposal];<

(e) Cooperate, as appropriate, with project participants in providing access to and/or in generating necessary data for the formulation of baselines;

(f) Maintain an up-to-date list of legal entities [resident in][of] that Party which it approves for participation in Article 6 activities. The list shall be made available to the secretariat and the public;

(g) Ensure that legal entities which it approves for participation in Article 6 activities comply with applicable rules and procedures;

(h) Report in accordance with appendix C.

F. Scope of projects

(Note: Section F may be considered as an option against sections G, H, I and K.)

25. Projects under Article 6 shall cover one or more of the gases listed in Annex A to the Protocol.

26. Projects under Article 6 must provide a reduction in emissions of greenhouse gases by sources listed in Annex A to the Protocol, or an anthropogenic enhancement of removals by sinks, that is additional to any that would otherwise occur. Enhancement of removals by sinks covers activities included in Article 3, paragraph 3, and any additional activities under Article 3, paragraph 4.

27. A project under the pilot phase of activities implemented jointly shall be eligible to be pursued as a project under Article 6 if the project meets the criteria established in these guidelines, and if the Parties involved in the project agree that it should be considered as an Article 6 project activity.

G. Validation

Option A

(Note: There is no provision in Article 6 for validation.)

Option B (paras 28 and 29):

28. Validation is the process of independent evaluation of a project activity by an accredited independent entity against the requirements of Article 6 project activities on the basis of a project [design document] [proposal].

29. >A Party may develop its own procedures and criteria for the validation of project proposals.<

Option C (paras 30 to 66):

30. Validation is the process of independent evaluation of a project activity by an accredited independent entity against the requirements of Article 6 project activities on the basis of a project [design document] [proposal].

31. All the rigours and conditions of CDM project activities for ensuring real, measurable and long-term benefits related to the mitigation of climate change at the project level must apply to Article 6 projects.

32. The project design document shall fulfil requirements contained in the UNFCCC Article 6 reference manual contained in appendix B. Validation of a project activity is a prerequisite for its registration as an Article 6 project activity.

33. Project participants shall submit to an accredited independent entity, under a contractual arrangement, a project design document for validation. The project design document shall contain all information [needed for the validation of the project activity as an Article 6 project activity, in accordance with the UNFCCC Article 6 reference manual including, inter alia, a proposed project-specific or [standardized] [multi-project] baseline and a monitoring plan] [required for the registration of a project activity specified in this decision].

34. Accredited independent entities shall ensure that proprietary information submitted in a project design document [is held in confidence in accordance with provisions contained in the UNFCCC Article 6 reference manual.] Information needed to determine emissions additionality shall not be considered confidential.

35. The accredited independent entity, selected by project participants to validate a project activity, shall review the project design document and supporting documentation to confirm that the following requirements are met:

(a) The project design document has been approved by [the host Party] [each Party involved] in the form of a formal letter of approval;

(Note: Subparagraph (a) should be read in conjunction with paragraph 40.)

(b) The project participants are eligible to participate in Article 6 project activities;

(c) The project type is eligible under Article 6;

(d) [Objections][Comments] by stakeholders have been considered;

(e) The baseline complies with modalities and procedures specified in this document >and in the UNFCCC Article 6 reference manual<;

(f) The project activity would provide a reduction in emissions by sources, or an enhancement of removals by sinks that is additional to any that would occur in the absence of the proposed project activity, and [contribute to][would provide] real, measurable, and long-term benefits related to the mitigation of climate change;

(g) Provisions for monitoring, verification and reporting of >relevant< project performance >indicators< are adequate and in accordance with provisions in this document >and the UNFCCC Article 6 reference manual<;

(h) >Public< funding for Article 6 project activities shall not result in a diversion of Global Environment Facility (GEF) >[and][or] other financial commitments of Parties included in Annex I<, official development assistance (ODA) >[and] [or] financing from other systems of cooperation<;

(i) The project activity conforms to [any] other requirements for Article 6 project activities >contained in this document and the UNFCCC Article 6 reference manual<.

36. The accredited independent entity shall provide the opportunity for comment, within XX days, on elements relating to environmental additionality by [members of the public] [Parties and accredited non-governmental organizations] [resident in the host Party].

37. [The accredited independent entity shall [provide the project participants with a recommendation] [recommend to [the executive board]] that the project be registered as an Article 6 project activity if it determines that the project design, as documented, conforms with [the requirements for validation] [baseline and monitoring methodologies and other criteria contained in the UNFCCC Article 6 reference manual].]

38. >If the accredited independent entity determines that the project design document includes new baseline or monitoring methodologies and if the project participants wish to have these methodologies validated, the independent entity shall assess the new methodologies against the requirements contained in the UNFCCC Article 6 reference manual and, where appropriate, provide the project participants with a recommendation for the inclusion of these new methodologies in the UNFCCC Article 6 reference manual.<

39. The accredited independent entity shall inform project participants if it determines that the project design, as documented, does not fulfil the requirements for validation, explaining the reasons for non-acceptance and, where appropriate, providing recommendations for the modification of the methodologies used. A project activity that is not validated may be reconsidered for validation after appropriate revisions have been made to the project design document.

40. Project participants shall submit a validated Article 6 project activity to their governments for approval. The governments of the participating Parties shall indicate their formal acceptance of the validated project through a letter of endorsement from the designated national authority for Article 6.

(Note: Subparagraph 35 (a) above provides for government approval prior to validation. If paragraph 40 were retained, there would also be a post-validation government approval.)

(The following paragraphs describe types of Article 6 project activities.)

41. >Article 6 project activities shall:

(a) Be based on the best available long-term environmental option, taking into account local and national needs and priorities;

(b) Lead to the transfer of state-of-the-art, environmentally safe and sound technology in addition to that required under other provisions of the Convention and the Protocol;

(c) Give priority to renewable energy, to energy efficiency technologies that are at the top end of efficiency practice anywhere, and to reducing emissions from the transportation sector;

(d) Not support the use of nuclear power;

(e) Not include activities enhancing anthropogenic or non-anthropogenic removals by sinks of greenhouse gases >until the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached and the COP/MOP decides on the eligibility of such project activities in the CDM<;

(f) >Give priority to carbon sequestration for the combating of desertification<;

(g) >Not include types of project activities excluded by a decision of the COP/MOP due to concerns about, inter alia, their additionality, their overall environmental integrity, methodologies to estimate GHG levels for such projects or their potential to cause negative impacts in relation to the domains covered by other multilateral environmental agreements.<<

42. >A project activity initiated before the first session of the COP/MOP may only be eligible for validation and registration as an Article 6 project activity in cases where the project activity [commenced after [date]] [was reported as an activity implemented jointly under the pilot phase] if it meets the criteria and provisions regarding Article 6 contained in this document and in the UNFCCC Article 6 reference manual. Following project activity validation and registration, resultant reductions in emissions by sources and/or enhancements of removals by sinks [from DD/MM/YYYY onwards] [from the date of the host Party's ratification of the Protocol or from DD/MM/YYYY, whichever is later,] will be eligible for [retrospective] certification and issuance of ERUs.<

43. >Implementation of Article 6 project activities should be commenced at the same time as CDM project activities, on completion of the AIJ pilot phase but not later than after the first session of the COP/MOP.<

44. >Article 6 project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects which are undertaken for reasons other than climate change. Several small-scale project activities of the same kind may be bundled so as to be subject to a single transaction without losing their own project identity with respect to requirements for validation, verification and certification.<

45. The baseline for an Article 6 project activity is the future scenario of what the GHG emissions or removals by sinks would be in the absence of the project activity, calculated using the validated baseline methodology for the project activity. A baseline shall cover emissions from sources listed in Annex A to the Protocol and removals by sinks and shall address all relevant greenhouse gases listed in Annex A to the Protocol.

(The following paragraphs refer to the determination of additionality.)

46. An Article 6 project activity is additional if it achieves:

(a) Emissions additionality. Emissions shall be reduced below or removals by sinks shall be increased beyond those that would have occurred in the absence of the validated project activity, where the validated baseline is defined as the GHG emissions or removals by sinks in the absence of the project activity;

(b) >Financial additionality. The project activity funding shall not result in a diversion of GEF, other financial commitments of Parties included in Annex I, ODA and other systems of cooperation;<

(c) >Investment additionality. The value of the ERU shall significantly improve the financial and/or commercial viability of the project activity;<

(d) >Technology additionality. The technology used for the project activity shall be the best [available for the circumstances of the host Party] [practicable internationally].<.

47. The [executive board] shall have final responsibility for determining the additionality of Article 6 project activities. The [executive board] shall have the authority to review and audit decisions of the independent entities and, to the degree they find that project activities would have been carried out anyway in the absence of Article 6, reject them.

(The following paragraphs address the criteria for real, measurable and long-term benefits related to the mitigation of climate change.)

48. [Emission reductions or enhanced removals by sinks shall be considered real if the baseline takes adequate account of] [The baseline should take adequate account of]:

(a) The validated project boundary, defined as the space within which the project is implemented and its emissions or removals by sinks occur;

(b) Leakage due to the project activity, defined as the increase in emissions or decrease in removals by sinks outside the validated project boundary. Emission reductions or increases in removals by sinks outside the validated project boundary which are due to the project activity cannot be credited to the project activity. Only leakage at the national or subnational level shall be taken into account;

(c) >Variations in actual activity levels during the year.<

49. >Except as provided for sequestration projects,< the emission reduction by an Article 6 project activity during a given year is the ex post calculation of baseline emissions less the actual emissions less leakage or actual removals by sinks less baseline removals by sinks less leakage [and/or carbon stock] due to the Article 6 project activity during that year.

50. The emission reduction is measurable if:

(a) The actual GHG emissions or removals by sinks after the project activity has been implemented can be measured and monitored, in accordance with provisions in this document and the UNFCCC Article 6 reference manual;

(b) The GHG emissions or sink enhancement baseline is calculated using the registered methodology.

51. >The benefits of a project activity related to the mitigation of climate change shall be considered long-term if the emission reduction persists over an appropriate period of time, taking into account the lifespans of different Article 6 project activities, and bearing in mind Article 2 of the Convention.<

(The following paragraphs refer to the crediting period for an Article 6 project activity.)

52. The crediting period for a project activity is the period of validity of the validated baseline defined as the shortest of (a) the operational life of the project activity; (b) [x] years; and (c) the period proposed by the project activity participants. The crediting period of a project activity may be extended by a validated revision of the baseline. [Factors in baseline determination which are subject to revision at the end of the crediting period should be identified at the outset].

(The following paragraphs cover modalities for the setting and revision of baselines.)

53. [The establishment of baselines shall be guided by the principles of reliability, transparency and completeness.]

54. Baselines shall be established in accordance with provisions in this document >and in the UNFCCC Article 6 reference manual<. Types of baselines considered for Article 6 project activities shall include:

(a) A project-specific baseline which establishes the emissions [and/or removals by sinks] for a specific reference case that represents what would occur in the absence of the project activity >which is unique to the project<. However, the methodology to calculate the baseline could be applied to other projects if appropriate;

(b) A [multi-project] [standardized] baseline for a given project activity type and specific geographic area, which will use a performance standard approved by the [executive board] and contained in the UNFCCC Article 6 reference manual.

55. The choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project activity baseline and additionality shall be explained in a transparent manner by project participants in the project design document to facilitate project activity validation and to facilitate replication.

56. The baseline for a project activity to reduce emissions by an ***existing source*** should, taking into account trends, represent the lowest of:

(a) Existing actual emissions prior to the project activity;

(b) The least-cost technology for the activity;

(c) Current industry practice in the host country or an appropriate region;

(d) >The average for such an existing source in Annex [I] [II] Parties<.

57. The baseline for a project activity to reduce emissions by a ***new source*** should, taking into account trends, represent the lowest of:

(a) The least-cost technology for such a new source;

(b) Current industry practice in the host country or an appropriate region for new sources;

(c) The average for such a new source in Annex [I] [II] Parties.

58. Project design and calculation of a baseline for a land-use, land-use change and forestry project to reduce emissions and/or enhance removals by sinks will need to address:

(a) Project duration;

(b) Types of baselines (i.e. project-by-project, multi-project);

(c) Issues of permanence and leakage;

(d) Environmental additionality.

59. Methodologies and approaches to deal with project design and baselines for land-use, land-use change and forestry projects shall be those approved by the [executive board].

60. >A [standardized] [multi-project] baseline must be set to ...

Option 1: the average of Annex [I][II] emissions for such project types.

Option 2: reasonable better-than-average current industry practice [and trends] for existing or new sources, as appropriate.

Option 3: >[x] per cent lower than a comparable validated project-specific baseline<.<

61. >The [executive board] shall give priority to developing [standardized] [multi-project] baselines for project activities below a specified size whose estimated emission reductions are less than AAA tonnes per year or BBB tonnes over their crediting period.<

62. >Any project activity whose estimated emission reductions exceed CCC tonnes per year or DDD tonnes over its crediting period shall use a project-specific baseline.<

63. >Relevant national policies and circumstances, including, inter alia, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project activity baseline.<

64. The baseline shall ensure that project activities do not benefit from national [policies which do not contribute to the ultimate goal of the Convention] [policies and practices which encourage activities that lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur].

(Note: Parties may wish to consider whether and how existing national legislation and regulation should be reflected in the determination of baselines.)

65. Option 1: >During a crediting period the validated baseline methodology of a project shall not be subject to revision except if recommended by an accredited independent entity verifying the emission reductions.<

Option 2: Once registered, a baseline shall remain in effect for the crediting period of the project. If the operational life of the project exceeds the crediting period, a new baseline shall be validated at the end of each crediting period upon request of project participants.

66. >A project-specific or [standardized] [multi-project] baseline methodology, contained in the UNFCCC Article 6 reference manual, may be revised at any time by the [executive board]. Any revision shall only be relevant to baselines validated subsequent to the time of revision and therefore shall not affect existing registered project activities during their crediting period.<

H. Registration

(Note: Some Parties suggest merging the function of registration with that of validation.)

Option A

(Note: There is no provision in Article 6 for registration.)

Option B (paras 67 and 68):

67. Registration is the formal [acceptance] [acknowledgement] by [the executive board] of a validated project proposal as an Article 6 project activity.

68. >A Party may develop its own procedures and criteria for project activity registration.<

Option C (paras 69 to 70):

69. Registration is the formal [acceptance] [acknowledgement] by [the executive board] of a validated project proposal as an Article 6 project activity.

70. Registration of a project activity is a prerequisite for the verification, certification and issuance of ERUs related to that project activity.

Option A (paras 71 to 72):

71. >Project participants shall submit to the [executive board] a request for registration, including the validated project design document and the recommendation by the accredited independent entity.<

72. >The [executive board] shall:

(a) At the request of the project participants, register validated Article 6 project activities by publishing the request for registration and assigning a unique identification number to the project activity, unless objections are raised in accordance with the following provisions:

(i) Objections may be submitted within YY days of the publication of the registration request and the validated project design document by the [executive board];

(ii) The [executive board] shall decide on the registration of the project activity within ZZ days of the deadline for the submission of objections;

(iii) The [executive board] shall inform the project participants of its decision and provide reasons if the registration request is declined;

(iv) Objections may only be submitted by Parties, [accredited observers to the UNFCCC] [and legal entities];

{Note: This is in addition to stakeholder objections being considered in the project design document and validation process.)

(b) In the case of new baseline or monitoring methodologies submitted by project participants with a recommendation of an accredited independent entity,

(i) Publish such a request together with the recommendation of the accredited independent entity and allow YY days for public comment;

(ii) Accept, accept with modifications, or reject the proposed new methodology, based on the information received and any independent research it deems appropriate, within XX days of the closing date for public comments;

(iii) Inform the project participants of its decision and provide reasons if the registration request is declined or modified;

(iv) Register the project activity and assign an identification number to the project activity as defined in decision D/CP.6.

(c) Revise the UNFCCC Article 6 reference manual to reflect its decisions.<

Option B (paras 73 and 74)

73. The independent entity shall submit to the [executive board] its registration decision on an Article 6 project, along with the project design document and any comments received, and shall make it publicly available.

74. The registration decision shall be considered final after [60] days from the date of receipt of the request unless a Party involved in the project activity, or at least [x] Parties on the [executive board], request a review of the registration decision by the executive board. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews shall be limited to issues associated with the applicability of the baseline methodology or multi-project baseline to the project, the monitoring plan, or other issues relating to environmental additionality;

(b) Upon receipt of a request for review in accordance with this paragraph, the [executive board] shall perform a review in accordance with this paragraph and determine whether the proposed registration should be approved;

(c) The [executive board] shall complete its review expeditiously, and in any case no later than the [second] meeting following its receipt of a request for review;

(d) The [executive board] shall inform the project participants of its determination, and make its determination and the reasons for it publicly available.

75. >A project activity that is not accepted may be reconsidered for validation and subsequent registration after appropriate revisions have been made to the project design document.<

I. Monitoring

Option A

(Note: There is no provision in Article 6 for monitoring guidelines.)

Option B (para 76)

76. >A Party may develop its own procedures and criteria for monitoring.<

Option C (paras 77 to 82)

77. Project participants shall ensure the implementation of the approved monitoring plan contained in the project [design document] [proposal]. Project participants shall report all data collected to [Parties involved] [an independent entity] for verification purposes[, as applicable]. Such a systematic surveillance and measurement of aspects related to the implementation and the performance of the project activity shall be sufficient to enable measurement and calculation of emission reductions by sources and/or enhancements of removals by sinks. Methodologies for monitoring shall be standardized.

78. A third party may provide assistance to project participants in implementing the approved monitoring plan. Any such third party shall operate under the responsibility of the project participants[and shall be independent of the independent entities involved in the project validation, verification or certification].

79. Monitoring shall include:

(a) Greenhouse gas emissions and/or removals by sinks associated with the Article 6 project activity;

(b) Parameters related to the determination of baseline emissions and/or removals by sinks. >This may include monitoring parameters outside the project activity boundaries to capture leakage effects [, <at national or subnational level]<;

(c) >Other relevant impacts of the Article 6 project activity (environmental, economic, social and cultural impacts).<

80. Revisions to the monitoring plan require justification by project participants and shall be validated by [Parties involved] [an independent entity] >subject to any guidance by the [executive board]<. Proposed changes to monitoring practices shall be approved by an independent entity >subject to guidance by the [executive board]<.

(The following paragraphs refer to quality criteria for monitoring methodologies.)

81. Monitoring related to Article 6 project activities shall be accurate, consistent, comparable, complete, transparent and valid and shall be based on good practice. In this context:

Accuracy is a relative measure of the exactness with which the true value of a performance indicator can be monitored or determined. Estimates and monitored performance indicators should be accurate in the sense that they are systematically neither over nor under their true values, as far as can be judged, and that uncertainties are reduced as far as practicable;

Consistency means that the monitoring plan is internally consistent in all its elements and its performance indicators over time. Monitoring is consistent if the same performance indicators are used and the same assumptions and methodologies are applied to monitor these indicators over time. The requirement for consistency should not inhibit changes to monitoring practices that improve accuracy and/or completeness;

Comparability means that estimates of emissions and removals by sinks should be comparable between the baseline and the project activity, and across projects. >For this purpose, project participants should use methodologies and formats listed in the UNFCCC Article 6 reference manual;<

Completeness means that monitoring covers, for the project activity baseline and actual emissions and/or removals by sinks, all relevant GHGs and sector and source categories listed in Annex A to the Protocol. Completeness also means covering all relevant performance indicators both within and outside the project boundary. >Monitoring operations should also provide a sound basis for assessing the contribution of the activity to sustainable development;<

Transparency means that assumptions, formulae, methodologies and data sources are clearly explained and documented to facilitate consistent and replicable monitoring activities as well as assessment of the reported information. The transparency of monitoring data and methodologies is fundamental to the credible verification and subsequent certification of achieved results and the issuance of ERUs;

Validity means that performance indicators give a real measure of achieved results. Monitoring shall therefore be based on indicators that will give an observable and real picture of project activity performance;

Good practice means performance at least equivalent to the most cost-effective commercially applied monitoring methodologies. These monitoring methodologies shall be listed in the UNFCCC Article 6 reference manual and shall be updated [continuously] [periodically] to take into account changes in technologies and best practices.

82. The implementation of the approved monitoring plan, and its validated revisions as applicable, shall be a condition for [verification, certification and the issuance of ERUs] [the assignment of a serial number to ERUs attributed to a Article 6 project activity].

J. Verification

Option A (paras 83 to 87):

83. Each Party involved in an Article 6 project activity shall report information on the activity.

84. Reporting format (*Note: to be drafted*).

85. The reporting by Parties on Article 6 projects will include, for each project:

(a) The baseline as agreed between the Parties involved;

(b) The calculation of the reduction in greenhouse gas emissions by sources or the enhancement of removals by sinks for the year;

(c) Transfers and acquisitions of emission reduction units during the year, including for each unit, the serial number and the Party's registry to which it was transferred or from which it was acquired;

(d) Any emission reduction units (identified by serial number) that have been retired that year.

86. A Party participating in an Article 6 project may develop its own internal mechanisms for verifying a reduction in emissions by sources or an enhancement of removals by sinks.

87. A review process (*Note: to be drafted*).

Option B (paras 88 and 89):

88. Verification is the periodic independent review and ex post determination by an independent entity of the monitored emission reductions by sources and/or enhancements of removals by sinks that have occurred as a result of an approved project activity during the verification period.

89. >The emission reductions or enhancements of removals by sinks for a project activity may be verified in accordance with mechanisms developed by the host Party.<

Option C (paras 90 and 91):

90. Verification is the periodic independent review and ex post determination by an independent entity of the monitored emission reductions by sources and/or enhancements of removals by sinks that have occurred as a result of an approved project activity during the verification period.

91. The independent entity [selected by the project participants][assigned by the executive board] performing the verification shall:

(a) Determine whether the project documentation provided is in accordance with the requirements of the approved project design document;

(b) Conduct on-site inspections, as appropriate, which may comprise, inter alia, a review of performance records, interviews with project participants and stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;

(c) If appropriate, use additional data from other sources;

(d) Review and determine the reduction in emissions by sources and/or enhancements of removals by sinks based on the data and information used in (a) and obtained through (b) and/or (c), as appropriate, using calculation procedures consistent with those contained in the registered project design documents;

(e) Identify any concerns related to conformity of the actual project activity and its operation with the registered project design document. The independent entity shall inform the project participants of any such concerns. Project participants may address the concerns and supply any additional information;

(f) Recommend to the project participants appropriate changes to the monitoring methodology;

(g) Provide a verification report to the project participants, the Parties involved[, the independent entity responsible for validation of the project activity] and the [executive board]. The [executive board] shall publish the report.

K. Certification

(Note: Some Parties suggest merging the function of certification with that of verification.)

Option A:

(Note: There is no provision in Article 6 for certification.)

Option B (paras 92 and 93):

92. Certification is the written assurance by an independent entity that, during a specific time period, a project activity achieved its emission reductions and/or removals by sinks [and other performance indicators], as verified.

93. >A Party may develop its own procedures and criteria for certification.<

Option C (paras 94 to 97):

94. Certification is the written assurance by an independent entity that, during a specific time period, a project activity achieved its emission reductions and/or removals by sinks and other performance indicators, as verified.

95. >Project participants shall submit a request for certification for a specific time-period to an independent entity, accompanied by, inter alia, the validated project design document and verification reports for the specific period.<

96. The independent entity shall certify in writing that, during the specific time-period, the project activity achieved emission reductions and/or removals by sinks, as verified. It shall inform the project participants [and the executive board] of its decision in writing immediately upon completion of the certification process and publish the decision in accordance with decision D/CP.6.

97. Emission reductions from a validated baseline resulting from an approved project activity shall be certified, after they have occurred, only if:

(a) >[The project participants apply] [A project participant applies] for the certification of the emission reductions resulting from the project activity for a specific time-period<;

(b) >The emission reductions >and other performance indicators< have been verified and a verification report has been submitted<;

(c) >All Parties and legal entities involved were eligible to participate in Article 6 activities during the verification period.<

L. Issuance of emission reduction units

(Note: Some Parties have suggested that issues of fraud, malfeasance or incompetence of independent entities that come to light at this stage may need to be addressed.)

98. [The ERUs and the assigned amount are unlike concepts. There is no fungibility between ERUs and the assigned amount.]

Option A (para 99):

99. The Party in which the project activity site is located shall issue ERUs by converting [AAUs][PAAs][9] to ERUs and transferring them to Parties and/or entities participating in the project activity, in accordance with the provisions on registries contained in decision D/CP.6.

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[9] [An 'assigned amount unit' (AAU)] [A 'part of assigned amount' (PAA)] is defined in accordance with decision D/CP.6.

>Issuance shall be based on the emission reductions or enhancement of removals by sinks of the project activity, as verified and certified in accordance with the Party's procedures and criteria.< The ERUs shall be distributed among the project participants according to their agreement.

Option B (paras 100 to 101):

100. Project participants shall submit to the [executive board] a request for issuance of ERUs, accompanied by a notification of their certification by an independent entity.

101. The [executive board] shall [, provided that no objection is raised by a Party involved in the Article 6 project activity[, accredited observers to the UNFCCC][and legal entities]]:

(a) Convert AAUs to ERUs, in accordance with decision D/CP.6, in respect of the emission reductions and/or removals by sinks resulting from a registered project activity for a specific time period;

(b) Allocate ERUs to the registry accounts of [project participants] [Parties participating in the project activity], as specified by [project participants] [the Parties involved], >less the share of proceeds to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation<.

Appendix X (to the annex to decision A/CP.6 on Article 6)

Supplementarity

Limits on acquisitions

102. Option 1: No elaboration of the term "supplemental".

Option 2: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Article 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 3 (i): Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 3 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 4: Access to Article 6 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments"] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitments] under Article 3. [A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be defined. Commensurate non-compliance processes must be prescribed].

Option 5: It is necessary to set limits on the use of mechanisms pursuant to Articles 6, 12 and 17 to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods.

Limits on transfers

103. Option 1: (Note: There is no basis in the Protocol for limits on transfers.)

104. Option 2: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Article 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 3 (i): Net transfers by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:

$$5 \text{ per cent of: } \frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 3 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 4: Access to Article 6 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitments] under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be defined. Commensurate non-compliance processes must be prescribed.

Option 5: It is necessary to set limits on the use of mechanisms pursuant to Articles 6, 12 and 17 to meet emission targets in the first commitment period. However, if objective criteria to

prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods.

[Issues related to Article 4]

105. [Any limitations on the transfer or acquisition of ERUs under Article 6 shall apply to the allocation of emission levels under Article 4.]

106. [Any limitations on the transfer or acquisition of ERUs under Article 6 shall apply to each individual Party operating under Article 4.]

107. [Re-allocations under Article 4 shall count against the limitations referred to in paragraph 102 above.]

Appendix A (to the annex to decision A/CP.6 on Article 6)

Standards and procedures for the accreditation of independent entities

Option A:

(Note: There is no provision for independent entities under Article 6.)

Option B (paras 108 to 110):

(Note: Further consideration of standards beyond those contained in this option may be needed.)

108. The accreditation standards shall address, inter alia, issues such as:

(a) Certification procedures;

(b) A process system to demonstrate the application of certification procedures;

(c) A system for the control of all documentation relating to validation, verification and certification;

(d) A professional code of practice, appeal and complaints procedures;

(e) Relevant expertise and competence of an independent entity;

(f) Independence of an independent entity;

(g) Insurance coverage of an independent entity.

109. An applicant independent entity shall meet the following organizational requirements:

(a) Be a [legal entity] (either a domestic legal entity or an international organization) and provide documentation of this status to the accreditation body;

(b) Employ a sufficient number of persons having the necessary competence to perform relevant validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;

(c) Have the financial stability and resources required for its activities;

(d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;

(e) Have documented internal procedures for carrying out its functions, including among others, procedures for the allocation of responsibility within the organization and procedures for handling complaints; these procedures shall be publicly available;

(f) Have the necessary expertise to carry out the functions specified in this and relevant decisions by [COP] [COP/MOP], in particular have sufficient knowledge and understanding of:

(i) The rules, modalities, procedures and guidelines for the operation of Article 6, relevant decisions of the COP and COP/MOP, and relevant guidance issued by the [executive board];

(ii) Environmental issues relevant to validation, verification and certification of Article 6 project activities;

(iii) The technical aspects of an Article 6 project activity relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions and other environmental impacts;

(iv) Relevant environmental auditing requirements and methodologies;

(v) ...

(g) Have management that has overall responsibility for performance and implementation of the entity's functions, including management reviews, and decisions on validation, verification and certification. The applicant independent entity shall make available to the accreditation body:

(i) The names, qualifications, experience and terms of reference of the senior executive, board members, senior officers and other personnel;

(ii) A structure chart showing lines of authority, responsibility and allocation of functions stemming from the senior executive;

(iii) Its policy and procedures for conducting management reviews;

(iv) Administrative procedures including documents control;

(v) Its policy and procedures for the recruitment and training of independent entity personnel, for ensuring their competence for validation, verification and certification functions, and for monitoring their performance;

(vi) Its procedures for handling complaints, appeals and disputes.

110. An applicant independent entity shall meet the following operational requirements:

(a) Work in a credible, independent, non-discriminatory and transparent manner which shall include:

(i) Documented structure which safeguards impartiality, including provisions to ensure impartiality of its operations. This structure shall enable the meaningful participation of all stakeholders significantly concerned in the development of the Article 6 project activity;

(ii) If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any Article 6 project activity, the applicant independent entity shall:

- Make a declaration to the accreditation body of all the organization's actual and potential Article 6 project activities, indicating which part of the organization is involved and in which particular Article 6 activities;

- Clearly define to the accreditation body the links with other parts of the organization, demonstrating that no conflicts of interest exist;

- Demonstrate to the accreditation body that no actual or potential conflict of interest exists between its functions as an independent entity and any other functions that it may have, and shall demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all potential sources of conflict of interest, whether they arise from within the independent entity or from the activities of related bodies;

- Demonstrate to the accreditation body that it, together with its senior executive and staff, is free of any commercial, financial and other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;

- Demonstrate to the accreditation body that it has policies and procedures for the resolution of complaints, appeals and disputes received from organizations or other parties about the handling of its activities;

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from Article 6 project participants and follow any procedures in this regard established by the COP/MOP. Except as required in the applicable procedures contained in COP/MOP decisions or by law, it shall not disclose information obtained from Article 6 project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. Emissions data or other data used to determine emissions additionality shall not be considered confidential;

(c) In cases where the independent entity subcontracts work on validation, verification or certification to an external body or person, the independent entity shall:

(i) Take full responsibility for such subcontracted work and maintain its responsibility for granting or withdrawing validation/certification;

(ii) Draw up a properly documented agreement covering the arrangements;

(iii) Ensure that the subcontracted body or person is competent and complies with applicable provisions of this decision, in particular regarding confidentiality and conflict of interest;

(iv) Report its use of the subcontractor to the [executive board].

>Appendix B (to the annex to decision A/CP.6 on Article 6)

[Project proposal] [UNFCCC Article 6 reference manual]

(Note: The following paragraphs relate to information requirements for Article 6 project activities, in particular for the determination of baselines.)

Option A (paras 111 to 115):

111. An Article 6 project activity baseline may be either a project-specific or a multi-project baseline:

(a) A project-specific baseline establishes the emissions and/or removals for a specific reference case that represents what would otherwise occur. Emissions and/or removals resulting from a project would be compared to the project-specific baseline to calculate net reductions or removals resulting from the project;

(b) A multi-project baseline establishes a performance standard (based on emissions and/or removals) for a sector or source category for a specific geographic area that represents what would otherwise occur. Emissions and/or removals resulting from a project within the same sector or source category and same geographic area would be compared to the multi-project baseline to calculate net reductions or removals resulting from the project.

112. Baselines for project activities must encompass all relevant gases covered by the Protocol in the context of the specific project expressed in CO_2 equivalent terms using the global warming potentials (GWPs) defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5, as appropriate.

113. The Parties involved in the Article 6 project activity may choose whether a project-specific baseline or multi-project baseline is more appropriate to the circumstances of the project.

114. Project-specific baselines shall consist of the following elements:

(a) The historic data set and/or a projection of future trends;

(b) The specific geographic area used as the reference case (e.g., subnational, national, regional group of countries, global);

(c) The project lifetime (i.e., time-period during which ERUs may accrue);

(d) Whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);

(e) The interval between updates and revisions of the baseline, if necessary;

(f) How the baseline deals with potential system boundary issues;

(g) Sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.

115. Multi-project baselines shall include the following elements:

(a) The level of aggregation (e.g., sector, subsector, technology);

(b) The historic data set and/or a projection of future trends;

(c) The specific geographic area covered by the baseline (e.g., subnational, national, regional group of countries, global);

(d) Whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);

(e) The interval between updates and revisions of the baseline, if necessary;

(f) How the baseline deals with potential system boundary issues;

(g) Sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.

Option B (para 116):

116. The project proposal shall contain for project-specific or [multi-project] [standardized] baseline methodologies:

(a) The goal and context of the project;

(b) A description of the project:
- (i) Project purpose;
- (ii) Project boundaries;
- (iii) Technical description of the project;
- (iv) Information regarding project location and its region;
- (v) Key drivers affecting future developments relevant to the baseline;

(c) A proposed baseline methodology:
- (i) Description of the baseline calculation methodology;
- (ii) Justification indicating that the proposed baseline methodology is appropriate;
- (iii) Justification of proposed crediting period;
- (iv) The estimated operational life of the project;

(v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project;
(vi) Description of key parameters and assumptions used in the baseline estimate;
(vii) Data sources to be used to calculate the baseline emissions, such as historic data on emissions, variables and parameters used;
(viii) Historic emissions for the activity;
(ix) Projection of baseline emissions and emissions reduction by year over the operational life of the project;
(x) Sensitivity analyses;
(xi) Uncertainties in a quantitative manner:
- Data;
- Assumptions;
- Key factors;
- Other;
(xii) Strengths and weaknesses of the proposed baseline methodology;

(d) Conclusions on the proposed baseline methodology;

(e) Monitoring plan:
(i) Project performance indicators both within and outside the project boundary;
(ii) Data needed for the project performance indicators and assessment of data quality;
(iii) Methodologies to be used for data collection and monitoring;
(iv) Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;
(v) Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;
(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed];

(f) References.

Option C (paras 117 to 122):

117. The UNFCCC Article 6 reference manual shall reflect the provisions and guidelines contained in this document and be updated continuously by the [executive board] reflecting decisions by the COP/MOP [and the executive board]. It shall take into account:

(a) Approval of new and revised baselines and monitoring methodologies in response to project submissions and recommendations of the independent entities;

(b) >Research and development by the [executive board] drawing upon organizations with relevant expertise as appropriate;<

(c) Input from other sources.

118. The [executive board] shall publish a UNFCCC Article 6 reference manual which shall include:

(a) The information required to be provided to support a project-specific baseline calculation methodology;

(b) Information on each approved [standardized] [multi-project] baseline, including

(i) The criteria a project shall meet to be eligible to use the [standardized] [multi-project] baseline (e.g. technology, sector, geographic area);

(ii) The crediting period;

(iii) The approved baseline calculation methodology;

(iv) How the baseline methodology deals with potential project boundary issues, including, if available, standard leakage correction factors and the rules for their application;

(c) The format of the project design document (see annex to this appendix);

(d) Any other information needed to apply the approved baseline methodology;

(e) >Monitoring guidelines for different project types and good practice standards for each monitoring methodology; <

(f) >Unified reporting formats per project type, with specified data and reporting requirements, as necessary; <

(g) >Guidance on how to use sensitivity analysis;<

(h) Best practice examples for the determination of baselines, per project type;

(i) [...].

(Note: Paragraphs 119 to 122 refer to the project design document required under option C above.)

119. A project activity to be validated shall be described in detail in a project design document approved by [each Party involved] [the host Party] and submitted to an independent entity.

120. The part of the project design document relating to the baseline shall provide the project validator with a complete understanding of the chosen baseline.

121. The content and structure of the project design document shall include the following:

(a) A letter from the designated point of contact in [each Party involved] [the host Party] indicating formal acceptance of the proposed;

(b) A short summary of the purpose and context of the project;

(c) A description of the project:
- (i) Project purpose;
- (ii) Policy and institutional context:
  - Policy standards of the host country for the sectors involved;
  - The host country's legal framework;
  - The social actors involved in the design and execution of projects;
- (iii) Technical description of the project and a description of the transfer of technology, including viability of technological choices;
- (iv) Information regarding project location and its region;
- (v) Project boundaries;
- (vi) Key parameters affecting future developments relevant to the baseline as well as the Article 6 project activity;
- (vii) Socio-economic aspects:
  - Influence of the project on the socio-economic situation of the host Party;
  - Impact of the project beyond its project boundaries;
  - Additional effects (indirect) of the execution and functioning of the project;

(d) Proposed baseline methodology:
- (i) Description of the baseline calculation methodology chosen (in case of a [standardized] [multi-project] baseline, please indicate the relevant section of the UNFCCC Article 6 reference manual);
- (ii) Justification that the proposed baseline methodology is appropriate;
- (iii) Justification of proposed crediting period;
- (iv) The estimated operational life of the project;
- (v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project;

(vi) Description of key parameters and assumptions used in the baseline estimate;
(vii) Data sources to be used to calculate the baseline emissions, such as historic data on emissions, variables and parameters used;
(viii) Historic emissions for the activity;
(ix) Projection of baseline emissions and emissions reduction by year over the operational life of the project;
(x) Sensitivity analyses;
(xi) Uncertainties (in a quantitative manner):
- Data;
- Assumptions;
- Key factors;
- Other;
(xii) Strengths and weaknesses of the proposed baseline methodology;

(e) Conclusions on the proposed baseline methodology;

(f) >Economic and financial information:
(i) Sources of financing and evidence that the funding is additional;
(ii) Financial and economic analysis (internal rate of return, reserve funds, financial flow);
(iii) Estimates of the costs of implementation and maintenance of the project over its projected lifetime;<

(g) Request for assistance in securing funding, if needed;

(h) Other information:
(i) Comments by local stakeholders and description of their involvement;
(ii) Contribution to other environmental agreements (e.g. biodiversity, desertification), as applicable;

(i) Monitoring plan:
(i) Relevant project performance indicators both within and outside the project boundary;
(ii) Data needed for the project performance indicators and assessment of data quality;
(iii) Methodologies to be used for data collection and monitoring;
(iv) Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;
(v) Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;
(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed];

(j) References.

(Note: Further consideration may be required to identify elements specific to projects using [standardized] [multi-project] baselines)

122. Guidelines for completing information in the project design document shall include the following provisions:

(a) Baseline emissions, actual emissions, baseline removals by sinks, actual removals by sinks, leakage and emission reductions shall be expressed in units of one tonne of CO_2 equivalent emissions, calculated using the global warming potential (GWP) values defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(b) The emission level of the baseline estimate shall be broken down into individual, separate activities in accordance with the methodological approach used. The project design document shall provide disaggregated activity data and emission factors for each individual reduction activity included in the project baseline estimate in accordance with the level of aggregation used for the baseline estimate;

(c) Project participants shall discuss to which extent national policies (especially distortionary policies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline. Data used for the determination of baselines should be of the highest quality available.<

Appendix C (to the annex to decision A/CP.6 on Article 6)

Reporting by Parties

(Note: This appendix relates to all mechanisms and is therefore repeated. It could alternatively be incorporated into the guidelines to be adopted under Article 7.)

Option A:

(Note: This appendix is not necessary.)

Option B (paras 123 to 125):

123. In accordance with the guidelines under Article 7 [and Article 5, paragraph 2], each Party included in Annex I shall incorporate in its annual inventory of anthropogenic emissions by sources and removals by sinks, the following information:

(a) Holdings of ERUs, CERs[10] and [AAUs][PAAs] in its registry at the [beginning] [end] of the year, identified by serial numbers;

(b) Initial transfers of ERUs and issuance of CERs and [AAUs][PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(c) Transfers and acquisitions of ERUs[, CERs] and [AAUs][PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(d) Retirement of ERUs, CERs and [AAUs][PAAs] from its registry during the year, identified by serial and transaction numbers;

(e) ERUs, CERs and [AAUs][PAAs] to be banked forward to a subsequent commitment period, identified by serial number;

(f) A uniform resource locator (URL) in the Internet from which up-to-date information may be downloaded on names and contact details of legal, private and public entities, resident within the jurisdiction of the Party, which are authorized or approved to participate in the mechanisms pursuant to Articles 6, 12 or 17.

124. In accordance with the guidelines under Article 7, each Party included in Annex I shall incorporate information on the following into its national communication:

(a) Project activities under Articles 6 and 12;

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[10] A 'certified emission reduction' (CER) is defined in accordance with decision D/CP.6.

(b) How its CDM project activities have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;

(c) An estimate of the expected contribution that acquired CERs will make towards compliance with its quantified emission limitation and reduction commitment under Article 3 and the expected contribution of domestic actions.

125. Parties not included in Annex I shall report on CDM project activities to which they are host in the context of their reporting commitments under Article 12 of the Convention. This reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3.

Appendix D (to the annex to decision A/CP.6 on Article 6)

Determination and allocation of the share of proceeds

Option A:

(Note: The Protocol does not provide for a share of proceeds in Article 6.)

Option B:

126. The share of proceeds shall be defined in accordance with the following provisions, or any subsequent revisions to them adopted by the COP/MOP:

(a) The share of proceeds is defined as ...

Option 1: a proportion of the [number][value] of ERUs issued for a project activity;

Option 2: a proportion of the number of ERUs issued for a project activity to the participating Party included in Annex I;

Option 3: [a proportion][__ per cent] of the value of the Article 6 project [activity];

Option 4: the differential of the costs incurred by the Party included in Annex I in reducing greenhouse gas emissions through a project activity in a Party not included in Annex I and of the projected costs that would have been incurred if the greenhouse gas emission reduction activity had taken place in the Party included in Annex I which is funding the project activity;

(b) The level of the share of proceeds is __ per cent;

(c) Option 1: No more than __ per cent of the amount of the share of proceeds shall be used to cover administrative expenses. The remaining amount of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an adaptation fund established by the COP/MOP.

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives.

(Note: The provisions in option 2 may not be applicable to Article 6 project activities.)

PART TWO
ARTICLE 12 OF THE KYOTO PROTOCOL

I. *[Draft decision [B/CP.6]: Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol*

The Conference of the Parties,

Recalling Article 12 of the Kyoto Protocol,

Recalling its decision 1/CP.3, in particular paragraph (e),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session on, inter alia, modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol, with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities, and including implications of Article 12, paragraph 10, of the Kyoto Protocol,

Recalling also its decision 8/CP.4,

Recalling further its decision 14/CP.5,

1. Urges the Parties concerned to start implementing measures to assist Parties not included in Annex I to the Convention with building capacity in order to facilitate their participation in the clean development mechanism;

2. Decides to establish the clean development mechanism [on an interim basis]. The Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol related to the clean development mechanism until the latter's first session. An [interim] executive board shall meet for the first time by [DD/MM/YYYY] and shall, inter alia:

(a) [Issue an [interim] UNFCCC clean development mechanism reference manual by [DD/MM/YYYY]];

(b) [Submit draft procedures for its operation to the Conference of the Parties at its [xth] session];

3. Requests the Subsidiary Body for Scientific and Technological Advice to finalize, no later than at its [X] session, a positive list of renewable energy and energy efficiency technologies;

4. Invites [Parties] [regional groups] to appoint members to the [interim] executive board, before [DD/MM/YYYY], in accordance with the modalities contained in the annex to this decision;

5. Requests [the secretariat of the Convention] to perform [interim] functions assigned to it as contained in the annex to this decision[1]*;*

6. Recommends that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session after the entry into force of the Protocol, adopt the following decision:

Decision -/[CMP.1]

Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account provisions contained in Articles 3 and 12 of the Kyoto Protocol,

Bearing in mind in particular that, in accordance with Article 12[2]*, paragraphs 2 and 3, the clean development mechanism (CDM) is to assist Parties*[3] *not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to this decision],*

Also bearing in mind [Article 3, paragraph 12] [that, in accordance with Article 3, paragraph 12, of the Kyoto Protocol, any certified emission reductions which a Party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party],

Bearing in mind further that a share of the proceeds from certified project activities under the CDM shall be used [, inter alia,] [to cover administrative expenses and] to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation,

Affirming that, in their actions to achieve the purpose of the CDM, Parties shall be guided by Article 3 of the Convention and, inter alia, the following considerations:

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1 The resource implications of this operative paragraph will need to be specified.

2 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

3 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

>Equity: The principle of equity in the Convention must apply to all aspects of the CDM based on equitable development rights and equitably spread regional activity. The right to development of developing countries must not be affected adversely in any way. It must be ensured that the CDM does not have any possibility or potential of perpetuating existing inequities between developing and developed countries.<

>Equity: Equity relates to equitable emission entitlements. Developed countries shall contract greenhouse gas emissions to reduced levels, with per capita emission levels in developed and developing countries coming on a converging path. The CDM shall not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing countries. The implementation of the CDM should be based on equitable development rights, the sharing of mitigation cost surpluses from CDM projects between Parties included and Parties not included in Annex I and balanced regional activity. Projects under the CDM shall not increase the costs of reducing emissions in host country Parties in the long term;<

>The limitation and reduction of emissions through CDM project activities does not lead to the creation or bestowal of any right, title or entitlement;<

[Comprehensiveness: Projects under Article 12 shall comprehensively cover all relevant anthropogenic sources, sinks and reservoirs of greenhouse gas emissions, adaptation, and all economic sectors;]

Sustainable development: CDM project activities shall contribute to the sustainable development of the host Party, in accordance with priorities set by the host Party, and shall not represent a long-term ecological debt. However, these activities shall not go against the agreed principles of other multilateral agreements or Agenda 21 and the Commission on Sustainable Development. The CDM should be oriented towards improving the quality of life of the very poor from the environmental standpoint and creating opportunities for the private sector of the host country Party [related to design and implementation of project activities];

[Climate change effectiveness: Any CDM project activity, in accordance with Article 12, paragraph 5 (b), shall provide real, measurable and long-term benefits related to the mitigation of climate change];

[Additionality: Reductions in emissions [and enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, in accordance with Article 12, paragraph 5 (c). >Public< funding for CDM project activities shall [be additional to] [not result in a diversion of] Global Environment Facility >[and] [or] other financial commitments of Parties included in Annex I<, official development assistance >[and] [or] financing from other systems of cooperation<;]

Transparency: All aspects of project activities and the institutions under the CDM shall be transparent, including in relation to costs, risks and liabilities incurred by Parties, while protecting confidential information;

Non-discrimination, prevention of distortion of competition: All developing country Parties may participate in CDM project activities on a voluntary basis. No unilateral measures should preclude a Party not included in Annex I from participating in any CDM project activity;

Special needs of least developed countries: Activities under the CDM should give full consideration to the special needs of least developed countries, in particular to the identification of their special technology needs and to capacity-building;

Special vulnerabilities and character of small island developing states: Activities under the CDM should take into account the special vulnerabilities and character of small island developing states, in particular capacity-building for adaptation activities and the implementation of CDM project activities;

Special situations of developing countries that are particularly vulnerable to the adverse effect of climate change: Activities under the CDM should take into account the special situations of vulnerable developing countries, particulary in capacity-building for adaptation activities and the implementation of CDM project activities;

Transfer of [most advanced cost-effective] technology and financial resources to Parties not included in Annex I: Project activities must ensure that Parties not included in Annex I have access to the [advanced] environmentally safe and sound technology they need. Technology transfer in CDM project activities shall be additional to commitments of Parties included in [Annex I] [Annex II] on technology transfer to developing country Parties under the Convention. The special needs of developing country Parties have to be addressed for identifying technology needs and helping enhance capacities for assimilation of technology;

Transferability: Once issued, CERs [may] [may not] be transferred to another Party or entity.

Fungibility/non-fungibility: Parties [may] [may not] exchange emission reduction units[, certified emission reductions] and [assigned amount units][parts of assigned amount] [in accordance with rules and procedures established by the COP/MOP which are to ensure their effective environmental equivalence].

Having considered decision B/CP.6,

1. Decides to adopt the modalities and procedures for a CDM contained in the annex to this decision;

2. Decides that the share of proceeds to be used in accordance with Article 12, paragraph 8 shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund defined in appendix E to the annex. >The share of proceeds for assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of

adaptation shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol;<

3. Option 1: Decides further to review and, where appropriate, revise the modalities and procedures contained in the annex and any guidelines established thereunder. This shall be five years after [the start of operation of the CDM] [within three years of the adoption by the COP/MOP], and periodically thereafter, and include issues such as the implementation of CDM project activities and their geographical spread, the distribution of financial assistance to adaptation projects and matters related to the adaptation fund. Revisions shall not affect [the first commitment period and] already registered project activities.

Option 2: Decides further that possible future revision of these [modalities and procedures][guidelines] may be considered taking into account the experience of Parties. Revisions shall not affect the first commitment period and already registered project activities.

4. *Requests [the secretariat of the Convention] to perform functions assigned to it as contained in the annex to this decision*[4]*.]*

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[4] The resource implications of this operative paragraph will need to be specified.

II. Annex

MODALITIES AND PROCEDURES FOR A CLEAN DEVELOPMENT MECHANISM

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall, inter alia, determine the nature and extent of the supervisory role of the executive board, as referred to in Article[1] 12, paragraph 4, including in relation to:

(a) The ability of the executive board to establish rules, guidelines, or procedures that elaborate on or implement decisions of the COP/MOP;

(b) Decisions on "appeals" against decisions or conclusions of the designated operational entities and/or independent auditors referred to in Article 12, paragraphs 5 and 7, respectively;

(c) Any role (and, if so, what role) regarding initial or final determinations of whether a project is actually resulting in claimed CERs[2] and, if not, what happens thereafter;

(d) Limits with regard to general oversight of the activities of the designated operational entities and/or independent auditors for the purpose of keeping the COP/MOP informed as to how activities are progressing under Article 12;

(e) Engaging in a combination of some or all of those roles, as well as others.

2. The COP/MOP shall, inter alia, determine the implications of the subordination of the executive board to the COP/MOP, including:

(a) Whether 'appeals' against decisions of the executive board may be taken to the COP/MOP. Whether or not such 'appeals' are allowed, it must be made clear that the COP/MOP is not prevented on its own initiative from reviewing, modifying, or overruling any decision or other act of the executive board;

(b) The respective roles of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA) should be established for cases in which the COP/MOP is to review or consider an executive board decision, either on the initiative of the COP/MOP or by reason of an "appeal";

(c) What body may take such "appeals", if they are allowed, and on what types of issues;

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[1] 'Article' means an article of the Protocol, unless otherwise indicated.

[2] A 'certified emission reduction' (CER) is defined in accordance with decision D/CP.6.

(d) The time-period in which such "appeals", if they are allowed, must be taken and the procedure for COP/MOP consideration of the "appeal";

(e) If such "appeals" are allowed, or if the COP/MOP on its own initiative reviews or considers an executive board decision, the circumstances in which the decision might be suspended pending completion of COP/MOP disposition of the matter.

3. The COP/MOP shall exercise its authority over and provide guidance to the CDM by:

(a) Approving rules and procedures for the preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties[3] and accredited observers;

(b) Considering recommendations by the executive board submitted in accordance with provisions in this annex and taking future decisions, as appropriate;

(c) Considering annual reports of the executive board and, if appropriate, providing guidance to the executive board regarding issues such as methodologies for determining baselines; guidelines for monitoring, verification, certification, accreditation and reporting; and the reporting format;

(d) >Reviewing the regional and subregional distribution of CDM projects with a view to [ensuring][promoting] equitable distribution and providing appropriate guidance to the executive board accordingly.<

4. >The COP/MOP [may] [shall] consider appeals against decisions taken by the executive board. The COP/MOP may, upon request of [x] Parties or in its own initiative, review, modify or overrule any decision or other action of the executive board based on technical and procedural advice by the SBSTA and the SBI. The COP/MOP shall make a final decision within [x] [months] [sessions] after a request has been made by [x] Parties.<

5. [The COP/MOP shall accommodate appeals from Annex I or host countries, proponents of CDM projects or public or private entities[4] affected by such projects.]

6. >Arbitration of disputes between Parties shall be undertaken in accordance with Article 14 of the Convention.<

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[3] 'Party' means a Party to the Protocol, unless the context indicates otherwise.

[4] 'Private and/or public entities' are those entities referred to in Article 12, paragraph 9.

B. Executive board

7. The executive board shall supervise the [daily management of the] CDM to ensure that CDM project activities are in conformity with the Convention, the Protocol and all relevant decisions of the COP/MOP. The executive board shall be responsible for carrying out functions and mandates mentioned in this decision, its annex and relevant decisions of the COP/MOP. The executive board shall be fully accountable to the COP/MOP [as a separate standing body of the COP/MOP].

8. The executive board shall, inter alia:

(a) [Assure that, as far as possible, CDM project activities shall comprehensively cover all relevant sources, sinks and reservoirs of greenhouse gas emissions, adaptation, and shall comprise all economic sectors;]

(b) >>Revise and amend the areas in which CDM project activities can be undertaken and the types of project activities that can be included [and submit recommendations for adoption to the COP/MOP] as well as< determine new baseline and monitoring methodologies in accordance with the provisions in section G on validation below [and submit recommendations for adoption to the COP/MOP];<

(c) Propose measures resulting in equitable distribution of CDM projects;

(d) Provide guidance to private and/or public entity participants following decisions of the COP/MOP ;

(e) >Facilitate, as appropriate, a specific mechanism to be established by the COP/MOP to assist Parties not included in Annex I with the capacity-building required to participate in CDM activities.< [Assign][Recommend], as appropriate, functions to other institutions under Article 12 within the framework provided for by the COP/MOP [and define the roles of multilateral agencies, especially as regards the development of the institutional capability required to promote broad participation by all Parties not included in Annex I][and submit recommendations for adoption to COP/MOP];

(f) >Recommend to the COP/MOP decisions on rules and procedures for the efficient functioning of the executive board in relation to, inter alia, the preparation and distribution of the provisional agenda of executive board meetings and presentations to be made to the executive board by Parties and accredited observers;<

(g) Assist in arranging [multilateral] funding of CDM project activities as necessary, including acting as a project clearing-house and publishing summary information on proposed CDM project activities in need of funding;

(h) [Administer the 'CDM equitable distribution fund'.]

(i) Make public [all non-confidential information for project activities, including registered project design documents, public comments received, verification reports, its decisions and all CERs issued][relevant non-confidential information on the registration of CDM projects including the identification number];

(j) Report to each session of the COP/MOP on its activities, new projects registered and CERs issued and prepare recommendations for consideration by the COP/MOP as appropriate.

9. The executive board shall consist of [x] members and shall comprise ...

- Option 1: an equal number of representatives from Parties included and Parties not included in Annex I.

- Option 2: eight members chosen by and from among Parties included in Annex B, and eight members chosen by and from among Parties not included in Annex B.

- Option 3: three persons from each of the five United Nations regional groups.

- Option 4: a fair and geographically equitable membership that reflects the unique representational balance established by the practice of the Parties (such as the Bureau of the COP) and be functionally small.

- Option 5: two representatives from Asia, two representatives from the Americas, two representatives from Europe, two representatives from Africa and [one][two] representative[s] from the small island States, making up a total of nine members.

- Option 6: eleven members selected on the basis of rule 22 of the UNFCCC rules of procedure being applied, supplemented by two members selected by Parties included in Annex I and three members selected by Parties not included in Annex I, making a total of 16 members.

10. Members of the executive board shall be elected by [the COP/MOP] [Parties included and Parties not included in Annex I, respectively] and shall be [proposed by the Parties] [nominated by each of the five United Nations regional groups]. [Vacancies shall be filled in the same way][A vacancy should be filled by the COP/MOP electing a successor who is nominated by the regional group that had nominated the person holding the position that became vacant]. Members shall be appointed for a period of [up to] two years, with the ability to serve a maximum of two consecutive terms. In order to create staggered terms, [y] members from Parties included and Parties not included in Annex I, respectively, shall initially serve for a period of one year.

11. Members should possess appropriate technical expertise and shall act in their personal capacity.

12. Option 1: The COP/MOP shall select a chair and a vice-chair of the executive board from among its members, with one of those officers being from a Party not included in Annex I.

Option 2: The COP/MOP shall select a chair and a vice-chair of the executive board with equitable regional rotation.

Option 3: The executive board shall elect its own chair and vice-chair, with one being a member from a Party included in Annex B and one being a member from a Party not included in Annex B. The chair and vice-chair shall alternate annually between members from Parties included and Parties not included in Annex B, respectively.

13. The executive board shall meet as necessary but no less than three times a year.

14. >Decisions by the executive board shall be taken by consensus whenever possible. If all efforts at reaching a consensus have been exhausted, and no agreement reached, decisions [on matters of substance] shall be taken by a two-thirds majority of the members [present and voting at the meeting] [, representing a majority of members chosen by and from among Parties included in Annex B and a majority of members chosen by and from among Parties not included in Annex B]. Decisions on matters of procedure may be taken by a majority of members present and voting. A decision concerning whether a matter may be treated as a matter of procedure shall be treated as a matter of substance.<

15. [The executive board shall not take a decision unless at least one member of the executive board from each of the five United Nations regional groups is present in person. The executive board shall not delegate any decisions for which it is responsible.]

16. >Meetings of the executive board shall be open to attendance, as observers, by all Parties and by all accredited observers, except where provided for by its rules and procedures.<

17. The full text of all decisions of the executive board shall be kept by the secretariat >and be communicated to each Party [and other entities as appropriate][and to the categories of persons and entities that the COP/MOP believes should receive them]. The decisions should be translated into all six official languages of the United Nations.<

18. Option 1: The executive board shall, as appropriate, make arrangements for the administrative support necessary for its activities, under the guidance of the COP/MOP. The [UNFCCC] secretariat [within its functions outlined in Article 8 of the Convention] [on request by the executive board and under the guidance of the COP/MOP] [shall] [may] [support the executive board as necessary] [provide administrative and secretariat assistance to the executive board]. This assistance could include compiling, synthesizing and disseminating information related to CDM activities, including in relation to Article 12, paragraph 6, and performing other secretariat functions as requested by the executive board.

Option 2: The executive board shall be supported by a dedicated secretariat, comprising technical and administrative staff. The executive board shall be located in the secretariat of the Convention. The Convention secretariat shall be extended to accommodate this role.

19. The executive board may draw on >outside< [experts][expertise] for dealing with technical and methodological matters, as appropriate.

(Note: The following paragraphs relate to the relation between the executive board and operational entities, whose functions are described in section D below.)

20. >The executive board shall be the accreditation body for operational entities.< The executive board shall maintain a publicly available list of all designated operational entities.

21. The executive board may suspend or withdraw the designation of an operational entity if it finds that it no longer meets the accreditation standards or applicable decisions of the COP/MOP. The executive board shall immediately notify the affected operational entity and the COP/MOP of such action. >Registered project activities shall not be affected by the suspension or withdrawal of designation unless deficiencies identified in the validation report, verification report or certification for the project activity constitute the reason for the suspension or withdrawal of the designation.< Any decision taken by the executive board to withdraw designation shall be taken only after the operational entity has had the possibility of a hearing. The executive board shall make its decision on such a case public.

22. The executive board may review the accreditation standards, as appropriate, and recommend any revisions and amendments to the COP/MOP for adoption.

(The following paragraphs relate to the share of proceeds.)

23. The executive board shall assess the share of proceeds referred to in Article 12, paragraph 8, upon receiving a request for CERs to be issued. The executive board shall deduct the appropriate [share of proceeds] [number of CERs] from the quantity of CERs to be issued as a result of the project activity>, prior to their allocation to project participants[5]<. The amount of the share of proceeds to be used to cover administrative expenses shall be retained by the executive board for this purpose. The [remaining] amount of the share of proceeds to be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation shall be [transferred to an adaptation fund established by the [COP] [COP/MOP] (see appendix E)] [be channelled through an existing institution].

24. The executive board shall register and account for the generation, transfer and retirement of CERs, in accordance with provisions in decision D/CP.6 on registries, maintain the central registry and report annually to all Parties the registry accounts of each Party and of legal entities resident in that Party.

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[5] 'Participant' means a Party, a private or public entity [resident in] [of] a Party, or both, that has entered into a contractual agreement [on] [to implement] a CDM project activity.

25. The executive board shall maintain a reference manual for the purpose of facilitating the development of baselines, monitoring and other relevant project elements, in accordance with appendix B. The reference manual shall include all baseline methodologies and multi-project baselines approved in accordance with Article xx, and such other guidance that the executive board deems appropriate.

C. Accreditation body

26. The accreditation body shall accredit operational entities, in accordance with the standards and procedures contained in appendix A and relevant decisions of the [executive board] [COP/MOP]. This accreditation by the accreditation body shall constitute the designation of independent entities by the COP/MOP as stipulated in Article 12, paragraph 5.

27. >If the information supplied by an operational entity in respect of the accreditation criteria is insufficient to make a decision about accreditation, the accreditation body may carry out a competence analysis in cooperation with the operational entity. This would:

(a) Comprise an assessment of skills in response to evaluated needs;

(b) Cover the requirements of each relevant technical area;

(c) Demonstrate that the operational entity is able to identify the typical technical areas, environmental aspects and associated impacts of CDM activities.<

28. At regular intervals not exceeding [x] years, as well as through spot-checking at any stage, the accreditation body shall review whether the operational entity continues to comply with the accreditation standards, including, as appropriate:

(a) Auditing of relevant functions and activities of the operational entity;

(b) Monitoring the quality of the validation, verification or certification operations undertaken, including work subcontracted.

29. In reviewing designated operational entities, the accreditation body may request further information from them and/or project participants, as necessary.

D. Designated operational entities

30. Designated operational entities shall be responsible for carrying out functions referred to in sections D, G-K and in the annex to this decision as well as in other relevant decisions of the COP/MOP [and the executive board].

31. A designated operational entity shall:

(a) Be accredited by the COP/MOP through the accreditation body;

(b) Be supervised by the executive board [and the designated national authority for CDM of the host Party] and be fully accountable to the COP/MOP, through the executive board;

(c) [Be authorized by the designated national authority for CDM of the host Party to operate therein.][Comply with applicable laws of the Parties hosting CDM project activities that it validates, verifies or certifies];

(d) Be subject to modalities and procedures specified in applicable decisions of the COP/MOP [and the executive board];

(e) Inform immediately the accreditation body of any changes in its situation pertaining to accreditation criteria. If the accreditation body is satisfied that the change in circumstances does not breach the accreditation criteria, it shall confirm the accreditation of the operational entity;

(f) Not verify and/or from a CDM project activity which it has validated;

(g) Maintain and publish a list of all CDM project activities which it has validated, or for which it has verified and/or certified reductions in emissions by sources [and/or enhancement of removals by sinks], including, as applicable, an identification of subcontractors used for any such function;

(h) Submit annual activity reports to the executive board in accordance with appendix A. The required documentation and records system, identified in appendix A, shall form the basis for the annual report.

E. Participation

32. Participation in a CDM project activity is voluntary.

33. A Party not included in Annex I may [benefit from] [participate in] CDM project activities if it:

(a) Has ratified the Protocol;

(b) >Is bound by a compliance regime adopted by the COP/MOP and has not been excluded from participation in the CDM according to its procedures and mechanisms;<

(c) >[Adheres to] [Complies with] the provisions on registries contained in decision D/CP.6;<

(d) >Is in compliance with its commitments under Article 12 of the Convention, the rules and guidelines established for the CDM and relevant provisions of the Protocol.<

34. Parties not included in Annex I may individually or jointly propose, develop, finance and implement projects under the CDM with specific reference to decision 1/CP.3, paragraph 5 (e). The CERs generated by such projects can, in accordance with the national policies of the host Parties, be transferred to Parties included in Annex I or to entities [resident in][of] Parties included in Annex I, for compliance with their commitments under Article 3.

Option A (para 35):

35. A Party included in Annex I[6] may use CERs to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3 [to make up for shortfalls in achieving its emission commitments under Article 3, subject to supplementarity provisions,] if it:

(a) Has ratified the Protocol;

(b) [Is in compliance][Has not been found to be in non-compliance] with its commitments under Articles 5 and 7 >and Article 12 of the Convention< [in relation to emission inventories and accounting for assigned amount], the rules and guidelines established for the CDM and relevant provisions of the Protocol;

(c) >Is bound by a compliance regime adopted by the COP/MOP and has not been excluded from participation in the CDM according to its procedures and mechanisms>, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17]<;<

(d) >[Adheres to] [Complies with] the provisions on registries contained in decision D/CP.6;<

(e) [Has achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X.]

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[6] 'Party included in Annex I' means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention.

Option B (paras 36 and 37):

36. Prior to the start of the first commitment period, the expert review teams established under Article 8 shall review the observance by Parties of the following eligibility criteria for transfers and acquisitions under the provisions of Article 3:

(a) Ratification of the Protocol;

(b) >Being bound by a compliance regime adopted by the COP/MOP and not having been excluded from participation in the CDM according to its procedures and mechanisms[, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17];<

(c) The implementation of a national system for the estimation of anthropogenic emissions by sources and removals by sinks in accordance with the guidelines set out in decision -/CP.6;

(d) The establishment of a national registry system to track parts of an assigned amount, certified emission reductions and emission reduction units transferred or acquired under the provisions of Article 3, paragraphs 10, 11 and 12, in accordance with the guidelines set out in decision D/CP.6;

(e) The completeness and accuracy of the base year greenhouse gas emissions inventory and greenhouse gas inventory report to standards [to be] established in a decision of the COP/MOP;

(f) The timely submission, completeness and accuracy of the last available annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(g) The submission of the last required periodic national communication, in accordance with the guidelines in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].

37. After the start of the first commitment period, the compliance body shall, based on the information submitted by the expert review teams, review and make decisions on the continuing observance of the following eligibility criteria by Parties:

(a) Submission of the annual greenhouse gas inventory and annual greenhouse gas inventory report by the date decided by the COP/MOP;

(b) Completeness and accuracy of the annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(c) Maintenance of the national registry system in accordance with the guidelines contained in decision D/CP.6;

(d) Submission of periodic national communications, in accordance with the guidelines contained in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].

38. >If a Party included in Annex I emits less than its assigned amount, any CERs it has acquired may be used by that Party in the next commitment period. >The acquisition of CERs does not alter the assigned amount for the commitment period or any part of the assigned amount transferable under Article 17.<<

39. >A Party operating under Article 4 [may] [may not] [acquire] [use] CERs resulting from CDM project activities [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.<

40. A private or public entity [resident in] [of] a Party included or not included in Annex I may participate in CDM project activities with the approval of that Party, if:

(a) The Party [may, where applicable, use CERs to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3] [has not been excluded from participation in the CDM];

(b) The entity is in compliance with the rules and guidelines established for the CDM;

(c) The entity is in compliance with guidance provided by the executive board [and its national government].

41. A Party may develop national rules or guidelines, consistent with rules and guidelines established for the CDM, for the participation in CDM project activities of that Party and of entities [resident in][of] or operating in the jurisdiction of that Party. The Party shall publish such national rules and guidelines.

42. The CDM involves the participation in CDM project activities of Parties included and Parties not included in Annex I. Parties included in Annex I will fund projects in Parties not included in Annex I which will assist sustainable development. Parties are responsible for the involvement of their private and/or public entities in CDM project activities subject to guidance provided by the executive board.

43. >Parties participating in CDM project activities shall be responsible at all stages and in all aspects for project activities in which they are participating and for the involvement of their private and/or public entities.< The participation of private and/or public entities in project

activities does not affect the commitments of Parties included in Annex I under the Protocol and the Convention. >Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I at the time of approval of the CDM project activity shall be assumed to be the responsibility of the participating Party included in Annex I. In cases where no Party included in Annex I or entity [resident in] [of] such a Party is involved, the host Party assumes total responsibility for the project.<

44. A Party not included in Annex I participating in the CDM shall:

(a) Designate a national authority for CDM to approve CDM project activities located in its territory;

(b) Develop and publish a legal and institutional framework, including procedures, for consideration and approval of project design documents;

(c) Approve each CDM project activity based on a project design document and confirm that it shall assist the host Party in achieving sustainable development;

(d) Provide a formal letter of approval from the designated national authority to project participants to demonstrate host Party approval of each project activity, including its confirmation that the project activity shall assist the host Party in achieving sustainable development;

(e) Cooperate, as appropriate, with project participants in providing access to and/or in generating necessary data for the formulation of baselines;

(f) Maintain an up-to-date list of private and public entities [resident in] [of] that Party which it approves for participation in the CDM. The list shall be made available to the secretariat and the public;

(g) Ensure that private and public entities which it approves for participation in the CDM comply with applicable rules and procedures;

(h) Report in accordance with appendix C.

45. A Party included in Annex I participating in the CDM shall:

(a) Designate a national authority for CDM to approve CDM project activities;

(b) Develop and publish a >legal and< institutional framework, including procedures, for consideration and approval of project design documents;

(c) Provide formal letters of approval from the designated national authority for CDM to project participants to demonstrate its approval of each project activity;

(d) Maintain an up-to-date list of private and public entities [resident in] [of] that Party which it approves for participation in the CDM. The list shall be made available to the secretariat and the public;

(e) Ensure that private and public entities which it approves for participation in the CDM comply with applicable rules and procedures;

(f) Report in accordance with appendix C.

46. >Issues of non-compliance with the provisions of Article 12 and/or the principles, modalities, rules and guidelines established for the CDM, including eligibility requirements, in relation to Parties or entities, may be raised [by the review process under Article 8] [by other means]. [Where possible,] such issues of non-compliance, and any disputes arising between Parties, shall be resolved [by the executive board within the framework of the CDM] [in accordance with procedures under Article 18]. They shall be expeditiously resolved.<

47. >In instances of such issues of non-compliance or disputes between Parties arising, CERs may continue to be issued [, transferred] and acquired, provided that any such CERs are not used by a Party to meet its commitments under Article 3 until the issue of non-compliance is resolved in favour of the Party in question or until the dispute is resolved.<

48. >Issues of non-compliance, in relation to Parties, which extend beyond the CDM shall be addressed in accordance with procedures under Article 18.<

F. Financing

49. >Public< funds involved in CDM project activities shall [be additional to] [not result in a diversion of] Global Environment Facility (GEF) >[and] [or] other financial commitments< of Parties included in Annex I, official development assistance (ODA) >[and] [or] financing from other systems of cooperation<.

50. Option 1: CDM project activities [shall] [may] be financed by Parties included [and/or not included] in Annex I and [their private or public entities] [private or public entities resident in them]. CDM project activities may be financed by such Parties individually or jointly or by other sources, including international financial entities and multilateral funds.

Option 2: Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs to be acquired from the project activities as sole return for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction commitments under Article 3 of the Protocol. Parties included in Annex I may involve private and/or public entities in such funding. CDM projects shall be financed by Annex I participants through bilateral agreement between Annex I and non-Annex I participants.

Option 3: CDM project activities may be financed by Parties included in Annex I and [their private or public entities] [private or public entities resident in them]. They may also be co-financed by Parties not included in Annex I and [their private or public entities] [private or public entities resident in them] as long as at least one Party included in Annex I or a private or public entity [resident in] [of] such a Party is included. CDM project activities may also be financed by international financial entities and multilateral funds.

51. Project activities [may] [shall] be financed through a multilateral fund which is established by the COP/MOP and managed by the executive board. The fund may accommodate both public and private investment funds. The CERs generated by project activities so financed shall be allocated to Parties included in Annex I in proportion to their contribution to the fund. A clearing house shall facilitate and coordinate, inter alia, the selection of projects and the resource allocation. This market may operate through regional entities accredited by the executive board.

52. Option 1: The executive board shall provide information on eligible CDM projects and their financing to Parties included and Parties not included in Annex I and promote initiatives, including modalities and procedures for project eligibility, to ensure that CDM investments take place in Parties that are often marginalized by purely market-based instruments. Where necessary, [the executive board shall assist in arranging funding for CDM project activities] [a Party not included in Annex I may prepare project proposals and apply to the executive board for financial and technical support]. Such projects shall be opened for funding after validation.

Option 2: The executive board shall operate a CDM equitable distribution fund to provide financial assistance to project activities where this is necessary to address imbalances in the regional distribution of CDM project activities. The fund shall be financed by Parties included in Annex II in accordance with a formula to be determined by the COP/MOP. CERs generated by CDM project activities financed by this fund shall be distributed to Parties included in Annex II in proportion to their contribution. Parties not included in Annex I may, individually or jointly, propose CDM projects to the CDM equitable distribution fund. The executive board shall allocate funds, including grants, to projects in accordance with criteria, taking into account the geographic distribution of existing and planned CDM projects, the comparative needs of regions or countries for assistance in achieving sustainable development, and the contribution of the proposed project to the limitation and reduction of greenhouse gas emissions, as established by the COP/MOP. Allocated funds need not necessarily offset the full cost of a CDM project.

53. >[x] per cent of the available money shall be allocated to least developed country Parties.<

G. Validation

54. Validation is the process of independent evaluation of a project by a designated operational entity against the requirements of the CDM>, contained in the UNFCCC CDM reference manual as defined in appendix B, on the basis of a project design document<. Validation of a project is a prerequisite for the registration of a project activity as a CDM project activity.

55. Project participants shall submit to a designated operational entity, under a contractual arrangement, a project design document for validation. The project design document shall contain all information [needed for the validation of the project as a CDM project activity, in accordance with the UNFCCC CDM reference manual including, inter alia, a proposed project-specific or [standardized] [multi-project] baseline and a monitoring plan] [required for the registration of a CDM project activity specified in this decision].

56. Designated operational entities shall protect confidential or proprietary information submitted in a project design document [is held in confidence in accordance with provisions contained in the UNFCCC CDM reference manual]. Information used to determine emissions additionality shall not be considered confidential.

57. The designated operational entity, selected by project participants to [validate] [register] a project activity, shall review the project design document and supporting documentation to confirm that the following requirements are met:

(a) >The project design document has been approved by [the host Party] [each Party involved] in the form of a formal letter of approval [which states how the project assists the host country in achieving sustainable development, taking into account its economic, environmental and social conditions according to its own priorities and needs and the need to minimize adverse environmental, social and economic effects taking into account existing guidance for sustainable development];<

(Note: Subparagraph (a) should be read in conjunction with paragraph 62.)

(b) >The project participants are eligible to participate in CDM project activities;<

(c) >The project type is eligible under the CDM<;

(d) [Objections] [Comments] by stakeholders have been considered;

(e) The baseline complies with modalities and procedures specified in this document >and in the UNFCCC CDM reference manual<;

(f) The project activity would provide a reduction in emissions by sources, [or an enhancement of removals by sinks] that is additional to any that would occur in the absence of the proposed project activity, and [contribute to] [would provide] real, measurable, and long-term benefits related to the mitigation of climate change;

(g) Provisions for monitoring, verification and reporting of >relevant< project performance >indicators< are adequate and in accordance with provisions in this document >and the UNFCCC CDM reference manual<;

(h) >Public< funding for CDM project activities [is additional to] [does not result in a diversion of] GEF >[and] [or] other financial commitments of Parties included in Annex I<, ODA [and] [or] >financing from other systems of cooperation<;

(i) The project conforms to [any] other requirements for CDM project activities >contained in this document and the UNFCCC CDM reference manual<.

58. The designated operational entity shall provide the opportunity for comment, within XX days, on elements relating to environmental additionality by [members of the public] [Parties and accredited non-governmental organizations] [resident in the host Party].

59. [The designated operational entity shall [provide the project participants with a recommendation] [recommend to the executive board] that the project be registered as a CDM project activity if it determines that the project design, as documented, conforms with [the requirements for validation] [baseline and monitoring methodologies and other criteria contained in the UNFCCC CDM reference manual]].

60. >If the designated operational entity determines that the project design document includes new baseline or monitoring methodologies and if the project participants wish to have these methodologies validated, the operational entity shall assess the new methodologies against the requirements contained in the UNFCCC CDM reference manual and, where appropriate, provide the project participants with a recommendation for the inclusion of these new methodologies in the UNFCCC CDM reference manual.<

61. The designated operational entity shall inform project participants if it determines that the project design, as documented, does not fulfil the requirements for validation, explaining the reasons for non-acceptance and, where appropriate, providing recommendations for the modification of the methodologies used. A project activity that is not validated may be reconsidered for validation after appropriate revisions have been made to the project design document.

62. Project participates shall submit a validated CDM project activity to their governments for approval. The governments of the participating Parties shall indicate their formal acceptance of the validated project through a letter of endorsement from the designated national authority for the CDM.

(Note: Subparagraph 57 (a) above provides for government approval prior to validation. If paragraph 62 is retained, there would also be a post-validation government approval.)

(The following paragraphs describe types of CDM project activities.)

63. >CDM project activities shall:

(a) Be considered by the host Party to assist the host Party in achieving sustainable development;

(b) Be based on the best available long-term environmental option, taking into account local and national needs and priorities;

(c) Lead to the transfer of state-of-the-art, environmentally safe and sound technology in addition to that required under other provisions of the Convention and the Protocol;

(d) Prior to 2008, be included in a positive list of renewable energy and energy efficiency technologies to be adopted by the SBSTA no later than at its [X] session;

(e) Give priority to renewable energy, energy efficiency technologies that are at the top end of efficiency practice anywhere, and reducing emissions from the transportation sector;

(f) Not support the use of nuclear power;

(g) Not include activities enhancing anthropogenic or non-anthropogenic removals by sinks of greenhouse gases >until the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached and the COP/MOP decides on the eligibility of such project activities in the CDM<;

(h) >Give priority to carbon sequestration for the combating of desertification<;

(i) >Not include types of project activities excluded by a decision of the COP/MOP due to concerns about, inter alia, their additionality, their overall environmental integrity, methodologies to estimate GHG levels for such projects or their potential to cause negative impacts in relation to the domains covered by other multilateral environmental agreements.<<

64. >CDM project activities shall, at the discretion of the host Party, and to assist with achieving sustainable development, include afforestation and reforestation activities and additional activities in agriculture, land-use change and forestry in line with decision X/CP.6 on the implementation of Article 3, paragraphs 3 and 4, on the basis that:

(a) Methodologies to measure and report on changes in greenhouse gas emissions and carbon stocks resulting from the project activity are available or are being developed;

(b) Project baselines can be determined on a project-by-project or on a multi -project basis;

(c) For land-use, land-use change and forestry projects, baseline determination should address sectoral emission trends at the national or subnational level;

(d) Accounting for project activity involves a determination that changes in greenhouse gas emissions and carbon stock as a result of the project activity are additional to a without-project baseline;

(e) National and/or subnational level leakage that may result from the project activity is addressed in project design;

(f) The project activity is deemed by the host Party to assist with sustainable development.<

65. >A project activity initiated before the first session of the COP/MOP may only be eligible for validation and registration as a CDM project activity if it [commenced after [date]] [was reported as an activity implemented jointly under the pilot phase] and it meets the criteria and provisions regarding the CDM contained in this document >and in the UNFCCC CDM reference manual<. Following project validation and registration, resultant reductions in emissions by sources [and/or enhancements of removals by sinks] [from 1 January 2000 onwards] [from the date of the host Party's ratification of the Protocol or from the year 2000, whichever is the later,] will be eligible for retrospective certification and issuance of CERs.<

66. >CDM project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects which are undertaken for reasons other than climate change. Several small-scale project activities of the same kind may be bundled so as to be subject to a single transaction without losing their own project identity with respect to requirements for validation, verification and certification.<

67. The baseline for a CDM project activity is the future scenario of what GHG emissions [or removals by sinks] would be in the absence of the project, calculated using the validated baseline methodology for the project. A baseline shall cover emissions from sources listed in Annex A to the Protocol [and removals by sinks] and shall address all relevant greenhouse gases listed in Annex A to the Protocol.

(The following paragraphs refer to the determination of additionality.)

68. A CDM project activity is additional if it achieves:

(a) Emissions additionality. Emissions shall be reduced below [or removals by sinks shall be increased beyond] those that would have occurred in the absence of the validated project activity, where the validated baseline is defined as the GHG emissions [or removals by sinks] in the absence of the project;

(b) >Financial additionality. [>Public< funding for CDM project activities shall [be additional to] [not result in a diversion of] GEF >[and] [or] other financial commitments of Parties included in Annex I<, ODA [and] [or] >other systems of cooperation<<;

(c) >Investment additionality. The value of the CERs shall significantly improve the financial and/or commercial viability of the project;<

(d) >Technology additionality. The technology used for the project shall be the best [available for the circumstances of the host Party] [practicable internationally].<

69. The executive board shall have final responsibility for determining the additionality of CDM project activities. The executive board shall have the authority to review and audit decisions of the designated operational entities and, to the degree they find that project activities would have been carried out anyway in the absence of the CDM, reject them.

(The following paragraphs address the criteria for real, measurable and long-term benefits related to the mitigation of climate change.)

70. [Emission reductions [or enhanced removals by sinks] shall be considered real if the baseline takes adequate account of] [The baseline should take adequate account of]:

(a) The validated project boundary, defined as the space within which the project is implemented and its emissions [or removals by sinks] occur;

(b) Leakage due to the project, defined as the increase in emissions [or decrease in removals by sinks] outside the validated project boundary. Emission reductions [or increases in removals by sinks] outside the validated project boundary which are due to the project activity cannot be credited to the project activity. Only leakage at the national or subnational level shall be taken into account;

(c) >Variations in actual activity levels during the year.<

71. >Except as provided for sequestration projects,< the emission reduction by a CDM project activity during a given year is the ex post calculation of baseline emissions less the actual emissions less leakage [or actual removals by sinks less baseline removals by sinks less leakage] [and/or carbon stock] due to the CDM project activity during that year.

72. The emissions reduction is measurable if:

(a) The actual GHG emissions [or removals by sinks] after the project has been implemented can be measured and monitored, in accordance with provisions in this document and the UNFCCC CDM reference manual;

(b) The GHG emissions [or sink enhancement] baseline is calculated using [the registered] [an approved] methodology.

73. >The benefits of a project activity related to the mitigation of climate change shall be considered long-term if the emission reduction persists over an appropriate period of time, taking into account the lifespans of different CDM project activities, and bearing in mind Article 2 of the Convention.<

(The following paragraphs refer to the crediting period for a CDM project activity.)

74. The crediting period for a project is the period of validity of the validated baseline defined as the shortest of (a) the operational life of the project; (b) [x] years; and (c) the period proposed by the project participants. The crediting period of a project may be extended by a validated review of the baseline. Factors in baseline determination which are subject to review at the end of the crediting period should be identified at the outset.

(The following paragraphs cover modalities for the setting and revision of baselines.)

75. [The establishment of baselines shall be guided by the principles of reliability, transparency and completeness.]

76. Baselines shall be established in accordance with provisions contained in this document >and in the UNFCCC CDM reference manual<. Types of baselines considered for the CDM shall include:

(a) A project-specific baseline which establishes the emissions [and/or removals by sinks] for a specific reference case that represents what would occur in the absence of the project activity >which is unique to the project<. However, the methodology to calculate the baseline could be applied to other projects if appropriate;

(b) A [multi-project] [standardized] baseline for a given project type and specific geographic area, which will use a performance standard approved by the executive board and be contained in the UNFCCC CDM reference manual.

77. The choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality shall be explained in a transparent manner by project participants in the project design document to facilitate project validation and replication.

78. The baseline for a project activity to reduce emissions by an ***existing source*** should, taking into account trends, represent the lowest of:

(a) Existing actual emissions prior to the project;

(b) The least-cost technology for the activity;

(c) Current industry practice in the host country or an appropriate region;

(d) >The average for such an existing source in Annex [I] [II] Parties<.

79. The baseline for a project activity to reduce emissions by a ***new source*** should, taking into account trends, represent the lowest of:

(a) The least-cost technology for such a new source;

(b) Current industry practice in the host country or an appropriate region for new sources;

(c) The average for such a new source in Annex [I] [II] Parties.

80. [Project design and calculation of a baseline for a land-use, land-use change and forestry project to reduce emissions and/or enhance removals by sinks will need to address:

(a) Project duration;

(b) Types of baselines (i.e. project-by-project, multi-project);

(c) Issues of permanence and leakage;

(d) Environmental additionality.]

81. [Methodologies and approaches to deal with project design and baselines for land-use, land-use change and forestry projects shall be those approved by the executive board.]

82. >A [standardized] [multi-project] baseline must be set to ...

Option 1: the average of Annex [I][II] emissions for such project types.

Option 2: reasonable better-than-average current industry practice [and trends] for existing or new sources, as appropriate.

Option 3: >[x] per cent lower than a comparable validated project-specific baseline<.<

83. >The executive board shall give priority to developing [standardized] [multi-project] baselines for projects below a specified size whose estimated emission reductions are less than AAA tonnes per year or BBB tonnes over their crediting period.<

84. >Any project whose estimated emission reductions exceeds CCC tonnes per year or DDD tonnes over its crediting period shall use a project-specific baseline.<

85. >Relevant national policies and circumstances, including, inter alia, sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline.<

86. The baseline shall ensure that projects do not benefit from national policies [which do not contribute to the ultimate goal of the Convention] [and practices which encourage activities that

lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur].

(Note: Parties may wish to consider whether and how existing national legislation and regulation should be reflected in the determination of baselines.)

87. For least developed country Parties, ["development-benefit-of-the-doubt"] [the least cost option] may be considered as the baseline, even if that option is not bankable, to create CERs to be valued and make the CDM project bankable.

88. Option 1: >During a crediting period the validated baseline methodology of a project shall not be subject to revision except if requested by a designated operational entity verifying the emission reductions.<

Option 2: Once registered, a baseline shall remain in effect for the crediting period of the project. If the operational life of the project exceeds the crediting period, a new baseline shall be validated at the end of each crediting period upon request of project participants.

89. A project-specific or [standardized] [multi-project] baseline methodology, contained in the UNFCCC CDM reference manual, may be revised at any time by the executive board. Any revision shall only be relevant to baselines validated subsequent to the time of revision and therefore shall not affect existing registered projects during their crediting period.

H. Registration

(Note: Some Parties suggest merging the function of registration with that of validation.)

90. >Registration is the formal [approval by each Party involved and thereafter the formal] [acceptance] [acknowledgement] by the executive board of a validated project as a CDM project activity. Registration is a prerequisite for the verification, certification and issuance of CERs related to that project activity.<

Option A (para 91 and 92)

91. [Project participants] [Designated operational entities] shall submit to the executive board a request for registration including the validated project design document and the recommendation by the designated operational entity.

92. The executive board shall:

(a) >At the request of the project participants<, register validated CDM project activities by publishing the request for registration and assigning a unique identification number

to the project activity as defined in [decision D/CP.6], unless objections are raised in accordance with the following provisions:

(i) >Objections may be submitted within YY days of the publication of the registration request and the validated project design document by the [executive board];<

(ii) >The [executive board] shall decide on the registration of the project within ZZ days of the deadline for the submission of objections;<

(iii) >The [executive board] shall inform the project participants of its decision and provide reasons if the registration request is declined or modified;<

(iv) >Objections may only be submitted by Parties, [accredited observers to the UNFCCC] [and legal entities];<

{Note: This is in addition to stakeholder objections being considered in the project design document and validation process.}

(b) >In the case of new baseline or monitoring methodologies submitted by project participants with a recommendation of a designated operational entity,<

(i) >Publish such a request together with the recommendation of the designated operational entity and allow YY days for public comment;<

(ii) >Accept, accept with modifications, or reject the proposed new methodology, based on the information received and any independent research it deems appropriate, within XX days of the closing date for public comments;<

(iii) >Inform the project participants of its decision and provide reasons if the registration request is declined or modified;<

(iv) >Register the project and assign an identification number to the project as defined in [decision D/CP.6].<

(c) >Revise the UNFCCC CDM reference manual to reflect its decisions.<

Option B (paras 93 and 94):

93. The designated operational entity shall submit to the executive board its registration decision on a CDM project, along with the project design document and any comments received, and shall make it publicly available.

94. The registration decision shall be considered final after [60] days from the date of receipt of the request unless a Party involved in the project activity, or at least [x] Parties on the executive board, request a review of the registration decision by the executive board. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews shall be limited to issues associated with the applicability of the baseline methodology or multi-project baseline to the project, the monitoring plan, or other issues relating to environmental additionality;

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board shall perform a review in accordance with this paragraph and determine whether the proposed registration should be approved;

(c) The executive board shall complete its review expeditiously, and in any case no later than the [second] meeting following its receipt of a request for review;

(d) The executive board shall inform the project participants of its determination, and make its determination and the reasons for it publicly available.

95. >A project that is not accepted may be reconsidered for validation and subsequent registration after appropriate revisions have been made to the project design document.<

I. Monitoring

96. Project participants shall ensure the implementation of the >registered< monitoring plan contained in the validated project design document >registered by the executive board<. Project participants shall report all data collected to a designated operational entity for verification purposes. Such a systematic surveillance and measurement of aspects related to the implementation and the performance of the project shall be sufficient to enable measurement and calculation of emission reductions by sources [and/or enhancements of removals by sinks]. Methodologies for monitoring shall be standardized.

97. A third party may provide assistance to the project participants in implementing the registered monitoring plan. Any such third party shall operate under the responsibility of the project participants and shall be independent of the designated operational entities involved in the project validation, verification or certification.

98. Monitoring shall include:

(a) Greenhouse gas emissions [and/or removals by sinks] associated with the CDM project activity;

(b) Parameters related to the determination of baseline emissions [and/or removals by sinks]. >This may include monitoring parameters outside the project boundaries to capture leakage effects[, at the national or subnational level]<;

(c) >Other relevant impacts of the project (environmental, economic, social and cultural impacts) .<

99. Revisions to the monitoring plan require justification by project participants and shall be validated by a designated operational entity >subject to any guidance by the executive board<. Proposed changes to monitoring practices shall be approved by a designated operating entity >subject to guidance by the executive board<.

(The following paragraphs refer to quality criteria for monitoring methodologies.)

100. Monitoring under the CDM shall be accurate, consistent, comparable, complete, transparent and valid and shall be based on good practice. In this context:

Accuracy is a relative measure of the exactness with which the true value of a performance indicator can be monitored or determined. Estimates and monitored performance indicators should be accurate in the sense that they are systematically neither over nor under their true values, as far as can be judged, and that uncertainties are reduced as far as practicable;

Consistency means that the monitoring plan is internally consistent in all its elements and its performance indicators over time. Monitoring is consistent if the same performance indicators are used and the same assumptions and methodologies are applied to monitor these indicators over time. The requirement for consistency should not inhibit changes to monitoring practices that improve accuracy and/or completeness;

Comparability means that estimates of emissions [and removals by sinks] should be comparable between the baseline and the project, and across projects. >For this purpose, project participants should use methodologies and formats listed in the UNFCCC CDM reference manual;<

Completeness means that monitoring covers, for the project baseline and actual emissions [and/or removals by sinks], all relevant GHGs and sector and source categories listed in Annex A to the Protocol. Completeness also means covering all relevant performance indicators both within and outside the project boundary. >Monitoring operations should also provide a sound basis for assessing the contribution of the activity in achieving sustainable development;<

Transparency means that assumptions, formulae, methodologies and data sources are clearly explained and documented to facilitate consistent and replicable monitoring activities as well as assessment of the reported information. The transparency of monitoring data and methodologies is fundamental to the credible verification and subsequent certification of achieved results and the issuance of CERs;

Validity means that performance indicators give a real measure of achieved results. Monitoring shall therefore be based on indicators that will give an observable and real picture of project performance;

Good practice means performance at least equivalent to the most cost-effective commercially applied monitoring methodologies. These monitoring methodologies shall be listed in the UNFCCC CDM reference manual and shall be updated [continuously] [periodically] to take into account changes in technologies and best practices.

101. The criteria for monitoring should take into account resource and technical constraints in developing countries, whilst still being rigorous enough to ensure that the objectives of the Convention have been met. > Participant Parties included in Annex I should provide the necessary financing and technical support to the participant Parties not included in Annex I for project monitoring.<

102. The implementation of the registered monitoring plan, and its validated revisions as applicable, shall be a condition for verification, certification and the issuance of CERs.

J. Verification

103. Verification is the periodic independent review and ex post determination by a designated operational entity of the monitored emission reductions by sources [and/or enhancements of removals by sinks] that have occurred as a result of a registered project activity during the verification period.

104. The designated operational entity, [selected by the project participants] [assigned by the executive board], performing the verification shall:

(a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document;

(b) Conduct on-site inspections, as appropriate, which may comprise, inter alia, a review of performance records, interviews with project participants and stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;

(c) If appropriate, use additional data from other sources;

(d) Review monitoring results and determine the reduction in emissions by sources [and/or enhancements of removals by sinks] based on the data and information used in (a) and obtained through (b) and/or (c), as appropriate, using calculation procedures consistent with those contained in the registered project design documents;

(e) Identify any concerns related to conformity of the actual project and its operation with the registered project design document. The designated operational entity shall inform the project participants of any such concerns. Project participants may address the concerns and supply any additional information;

(f) Recommend to the project participants appropriate changes to the monitoring methodology;

(g) Provide a verification report to the project participants, the Parties involved[, the designated operational entity responsible for the validation of the project] and the executive board. The [executive board] shall publish the report.

K. Certification

(Note: Some Parties suggest merging the function of certification with that of verification.)

105. Certification is the written assurance by a designated operational entity >that has verified the project< that, during a specific time-period, a project achieved its emission reductions [and/or removals by sinks] and other performance indicators, as verified.

106. >Project participants shall submit a request for certification for a specific time-period to a designated operational entity, accompanied by, inter alia, the registered project design document and verification reports for the specific period.<

107. The designated operational entity shall certify in writing that, during the specific time-period, the project activity achieved emission reductions [and/or removals by sinks], as verified. It shall inform the project participants [and the executive board] of its decision in writing immediately upon completion of the certification process and publish the decision in accordance with decision D/CP.6.

108. Emission reductions from a registered baseline resulting from a registered project activity shall be certified, after they have occurred, only if:

(a) >[The project participants apply] [A project participant applies] for the certification of the emission reductions resulting from the project for a specific time-period;<

(b) >The emission reductions >and other performance indicators< have been verified and a verification report has been submitted;<

(c) All Parties [and private or public entities] involved were eligible to participate in the CDM during the verification period.

L. Issuance of certified emission reductions

(Note: Some Parties have suggested that issues of fraud, malfeasance or incompetence of operating entities that come to light at this stage may need to be addressed.)

109. [The CERs are not transferable.]

110. [The CERs are not fungible with assigned amount. The CERs and the assigned amount are unlike concepts. The CERs and assigned amount cannot mix or assimilate with each other.]

Option A (paras 111 to 113):

111. >Project participants shall submit to the executive board a request for issuance of CERs, accompanied by a notification of their certification by a designated operational entity.<

112. The executive board shall [, provided that no objection is raised by a Party involved in the CDM project activity] [accredited observers to the UNFCCC] [and private and/or public entities]:

(a) Issue CERs in respect of the emission reductions [and/or removals by sinks] resulting from a registered project for a specific time-period;

(b) Allocate unique serial numbers to CERs;

(c) Allocate CERs to the registry accounts of [project participants] [Parties included [and not included] in Annex I], as specified by [project participants] [the Parties involved], less the share of proceeds >to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation[, determined and allocated in accordance with appendix D]. <

113. [CERs can only be used for compliance and cannot be [banked], traded or transferred to another Party.]

Option B (para 114):

114. Upon receipt of a final report confirming the certification of a quantity of CERs based on a project, the system administrator working under the authority of the executive board will

(a) Assign each CER a unique serial number;

(b) Transfer CERs into accounts of appropriate registries for project participants (according to their distribution agreement reflected in the certification report);

) Transfer CERs into the registry where the share of proceeds will be held.

Appendix X (to the annex to decision B/CP.6 on a clean development mechanism)

"Part of"/Supplementarity

115. Option 1: No determination of the term "part of".

Option 2: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access the CDM in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 3 (i): Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$
(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 3 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Article 6, 12 and 17 should not exceed 25-30 per cent.

Option 3 (iii): The overall use of CERs by Parties included in Annex I to contribute to compliance under Article 3 should be limited to 25 per cent of the aggregate assigned amount.

Option 4: CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments. Developed country Parties' participation in CDM project activities should be contingent on [satisfaction of prescribed domestic effort] [achieving a level of 40 per cent through domestic actions] in fulfilment of commitments under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 is required. The

ceiling for the acquisition of CERs by Parties included in Annex I shall be fixed at 35 per cent. Commensurate non-compliance processes must be prescribed.

Option 5: Limits may be levied in the short term on the amount of CERs used by Parties included in Annex I to meet their limitation and reduction commitments but, in the long term, CERs may be freely utilized.

[Issues related to Article 4]

116. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

117. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to each individual Party operating under Article 4.]

118. [Re-allocations under Article 4 shall count against the limitations referred to in paragraph 115 above.]

Appendix A (to the annex to decision B/CP.6 on a clean development mechanism)

Standards and procedures for the accreditation of operational entities

(Note: Further consideration of standards beyond those contained in this appendix may be required.)

119. The accreditation standards shall address, inter alia,:

(a) Certification procedures;

(b) A process system to demonstrate the application of certification procedures;

(c) A system for the control of all documentation relating to validation, verification and certification;

(d) A professional code of practice, appeal and complaints procedures;

(e) Relevant expertise and competence of a designated operational entity;

(f) Independence and absence of conflict of interest of a designated operational entity;

(g) >Insurance coverage of a designated operational entity<.

120. An operational entity shall meet the following organizational requirements:

(a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status to the accreditation body;

(b) Employ a sufficient number of persons having the necessary competence to perform relevant validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;

(c) Have the financial stability and resources required for its activities;

(d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;

(e) Have documented internal procedures for carrying out its functions, including among others, procedures for the allocation of responsibility within the organization and procedures for handling complaints; these procedures shall be publicly available;

(f) Have the necessary expertise to carry out the functions specified in this and relevant decisions by [COP] ¡COP/MOP], in particular have sufficient knowledge and understanding of:

(i) The rules, modalities, procedures and guidelines for the operation of the CDM, relevant decisions of the COP and COP/MOP, and relevant guidance issued by the executive board;

(ii) Environmental issues relevant to validation, verification and certification of CDM projects;

(iii) The technical aspects of CDM activity relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions and other environmental impacts;

(iv) Relevant environmental auditing requirements and methodologies;

(v) >Sustainable development<;

(vi) ...

(g) Have management that has overall responsibility for performance and implementation of the entity's functions, including management reviews, and decisions on validation, verification and certification. The applicant operational entity shall make available to the accreditation body:

(i) The names, qualifications, experience and terms of reference of the senior executive, board members, senior officers and other personnel;

(ii) A structure chart showing lines of authority, responsibility and allocation of functions stemming from the senior executive;

(iii) Its policy and procedures for conducting management reviews;

(iv) Administrative procedures including documents control;

(v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for validation, verification and certification functions, and for monitoring their performance;

(vi) Its procedures for handling complaints, appeals and disputes.

121. An applicant operational entity shall meet the following operational requirements:

(a) Work in a credible, independent, non-discriminatory and transparent manner which shall include:

(i) Documented structure which safeguards impartiality, including provisions to ensure impartiality of its operations. This structure shall enable the meaningful participation of all stakeholders significantly concerned in the development of the CDM project;

(ii) If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, project development or project financing of any CDM project, the applicant operational entity shall:

- Make a declaration to the accreditation body of all the organization's actual and potential CDM activities, indicating which part of the organization is involved and in which particular CDM activities;

- Clearly define to the accreditation body the links with other parts of the organization, demonstrating that no conflicts of interest exist;

- Demonstrate to the accreditation body that no actual or potential conflict of interest exists between its functions as an operational entity and any other functions that it may have, and shall demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all potential sources of conflict of interest, whether they arise from within the operational entity or from the activities of related bodies;

- Demonstrate to the accreditation body that it, together with its senior executive and staff, is free of any commercial, financial and other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;

- >Demonstrate to the accreditation body that it has policies and procedures for the resolution of complaints, appeals and disputes received from organizations or other parties about the handling of its activities;<

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants and follow any procedures in this regard established by the COP/MOP. Except as required in the applicable procedures contained in COP/MOP decisions or by law, it shall not disclose information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. Emissions data or other data used to determine emissions additionality shall not be considered confidential;

(c) In cases where the operational entity subcontracts work on validation, verification or certification to an external body or person, the operational entity shall:

(i) Take full responsibility for such subcontracted work and maintain its responsibility for granting or withdrawing validation/certification;

(ii) Draw up a properly documented agreement covering the arrangements;

(iii) Ensure that the subcontracted body or person is competent and complies with applicable provisions of this decision, in particular regarding confidentiality and conflict of interest;

(iv) Report its use of the subcontractor to the executive board.

Appendix B (to the annex to decision B/CP.6 on a clean development mechanism)

UNFCCC clean development mechanism reference manual

122. The UNFCCC CDM reference manual shall reflect the provisions and guidelines contained in this document and be updated continuously by the executive board reflecting decisions by the COP/MOP[and the executive board]. It shall take into account:

(a) Approval of new and revised baselines and monitoring methodologies in response to project submissions and recommendations of the operational entities;

(b) >Research and development by the executive board drawing upon organizations with relevant expertise as appropriate;<

(c) Input from other sources.

123. The executive board shall publish a UNFCCC CDM reference manual which shall include:

(a) The information required to be provided to support a project-specific baseline calculation methodology;

(b) Information on each approved [standardized] [multi-project] baseline, including:

(i) The criteria a project shall meet to be eligible to use the [standardized] [multi-project] baseline (e.g. technology, sector, geographic area);

(ii) The crediting period;

(iii) The approved baseline calculation methodology;

(iv) How the baseline methodology deals with potential project boundary issues, including, if available, standard leakage correction factors and the rules for their application;

(c) The format of the project design document (see annex to this appendix);

(d) Any other information needed to apply the approved baseline methodology;

(e) >Monitoring guidelines for different project types and good practice standards for each monitoring methodology;<

(f) >Unified reporting formats per project type, with specified data and reporting requirements, as necessary;<

(g) >Criteria to determine whether a project assists Parties not included in Annex I in achieving sustainable development;<

(h) >Guidance on how to use sensitivity analysis;<

(i) Best practice examples for the determination of baselines, per project type.

Annex to appendix B (UNFCCC CDM reference manual)

Project design document

124. A project activity to be validated shall be described in detail in a project design document approved by [each Party involved] [the host Party] and submitted to a designated operational entity.

125. The part of the project design document relating to the baseline shall provide the project validator with a complete understanding of the chosen baseline.

126. The content and structure of the project design document shall include the following:

(a) A letter from the designated national authority for CDM in [each Party involved] [the host Party] indicating formal acceptance of the proposed project including in relation to aspects of sustainable development;

(b) A short summary of the purpose and context of the project;

(c) A description of the project:
- (i) Project purpose;
- (ii) Policy and institutional context:
  - Policy standards of the host country for the sectors involved;
  - The host country's legal framework;
  - The social actors involved in the design and execution of projects;
- (iii) Technical description of the project and a description of the transfer of technology, including viability of technological choices;
- (iv) Information regarding project location and its region;
- (v) Project boundaries;
- (vi) Key parameters affecting future developments relevant to the baseline as well as the CDM project activity;
- (vii) Socio-economic aspects:
  - Influence of the project on the socio-economic situation of the host Party;
  - Impact of the project beyond its project boundaries;
  - Additional effects (indirect) of the execution and functioning of the project;

(d) Contribution to sustainable development;

(e) Proposed baseline methodology:
- (i) Description of the baseline calculation methodology chosen (in case of a [standardized] [multi-project] baseline, please indicate the relevant section of the UNFCCC CDM reference manual);
- (ii) Justification that the proposed baseline methodology is appropriate;
- (iii) Justification of proposed crediting period;
- (iv) The estimated operational life of the project;
- (v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project;
- (vi) Description of key parameters and assumptions used in baseline estimate;
- (vii) Data sources to be used to calculate the baseline emissions, such as historic data on emissions, variables and parameters used;
- (viii) Historic emissions for the activity;
- (ix) Projection of baseline emissions and emissions reduction by year over the operational life of the project;
- (x) Sensitivity analyses;
- (xi) Uncertainties (in a quantitative manner):
  - Data;
  - Assumptions;
  - Key factors;
  - Other;
- (xii) Strengths and weaknesses of the proposed baseline methodology;
- (xiii) Other environmental impacts related to the project;

(f) Conclusions on the proposed baseline methodology;

(g) >Economic and financial information:
- (i) Sources of financing and evidence that the funding is additional;
- (ii) Financial and economic analysis (internal rate of return, reserve funds, financial flow);
- (iii) Estimates of the costs of implementation and maintenance of the project over its projected lifetime;<

(h) Request for assistance in securing funding, if needed;

(i) Other information:
- (i) Comments by local stakeholders and description of their involvement;
- (ii) Contribution to other environmental agreements (e.g. biodiversity, desertification), as applicable;

(j) Monitoring plan:

(i) Relevant project performance indicators both within and outside the project boundary ;

(ii) Data needed for the project performance indicators and assessment of data quality;

(iii) Methodologies to be used for data collection and monitoring;

(iv) Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;

(v) Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;

(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed];

(k) References.

(Note: Further consideration may be required to identify elements specific to projects using [standardized] [multi-project] baselines)

127. Guidelines for completing information in the project design document shall include the following provisions:

(a) Baseline emissions, actual emissions, [baseline removals by sinks, actual removals by sinks,] leakage and emission reductions shall be expressed in units of one tonne of CO_2 equivalent emissions, calculated using the global warming potential (GWP) values defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(b) The emission level of the baseline estimate shall be broken down into individual, separate activities in accordance with the methodological approach used. The project design document shall provide disaggregated activity data and emission factors for each individual reduction activity included in the project baseline estimate in accordance with the level of aggregation used for the baseline estimate;

(c) Project participants shall discuss to which extent national policies (especially distortionary policies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline. Data used for the determination of baselines should be of the highest quality available.

Appendix C (to the annex to decision B/CP.6 on a clean development mechanism)

Reporting by Parties

(Note: This appendix relates to all mechanisms and is repeated in each mechanisms decision. It could alternatively be incorporated into the guidelines to be adopted under Article 7.)

128. In accordance with the guidelines under Article 7 [and Article 5, paragraph 2], each Party included in Annex I shall incorporate in its annual inventory of anthropogenic emissions by sources and removals by sinks, the following information:

(a) Holdings of ERUs[7], CERs and [AAUs] [PAAs][8] in its registry at the [beginning] [end] of the year, identified by serial numbers;

(b) Initial transfers of ERUs and issuance of CERs and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(c) Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(d) Retirement of ERUs, CERs and [AAUs] [PAAs] from its registry during the year, identified by serial and transaction numbers;

(e) ERUs, CERs and [AAUs] [PAAs] to be banked forward to a subsequent commitment period, identified by serial number;

(f) A uniform resource locator (URL) in the Internet from which up-to-date information may be downloaded on names and contact details of legal, private and public entities, resident within the jurisdiction of the Party, which are authorized or approved to participate in the mechanisms pursuant to Articles 6, 12 or 17.

129. In accordance with the guidelines under Article 7, each Party included in Annex I shall incorporate information on the following into its national communication:

(a) Project activities under Articles 6 and 12;

(b) How its CDM project activities have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;

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[7] An 'emission reduction unit' (ERU) is defined in accordance with decision D/CP.6.

[8] [An 'assigned amount unit' (AAU)] [A 'part of assigned amount (PAA)] is defined in accordance with decision D/CP.6.

(c) An estimate of the expected contribution that acquired CERs will make towards compliance with its quantified emission limitation and reduction commitment under Article 3 and the expected contribution of domestic actions.

130. Parties not included in Annex I shall report on CDM project activities to which they are host in the context of their reporting commitments under Article 12 of the Convention. This reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3.

Appendix D (to the annex to decision B/CP.6 on a clean development mechanism)

Determination and allocation of the share of proceeds

131. The share of proceeds shall be defined in accordance with the following provisions, or any subsequent revisions to them adopted by the COP/MOP:

(a) The share of proceeds is defined as ...

Option 1: a proportion of the [number][value] of CERs issued for a project activity;

Option 2: a proportion of the number of CERs issued for a project activity to the participating Party included in Annex I;

Option 3: [a proportion][__ per cent] of the value of the CDM project [activity]; [This way the administrative costs and the contribution to the adaptation fund are ensured at the outset.]

Option 4: the differential of the costs incurred by the Party included in Annex I in reducing greenhouse gas emissions through a project activity in a Party not included in Annex I and of the projected costs that would have been incurred if the greenhouse gas emission reduction activity had taken place in the Party included in Annex I which is funding the project activity;

Option 5: a surcharge to be levied on the basis of the amount of the CERs of a CDM project acquired by the Party included in Annex I participating in the CDM project, and to be paid by that participating Party included in Annex I;

(b) The level of the share of proceeds is __ per cent;

(c) Option 1: No more than __ per cent of the amount of the share of proceeds shall be used to cover administrative expenses. The remaining amount of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an adaptation fund established by the COP/MOP.

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives.

>Appendix E (to the annex to decision B/CP.6 on a clean development mechanism)

Decision X/CP.6 on an adaptation fund

The Conference of the Parties,

Bearing in mind ..... (UNFCCC 4.4/KP ADAPTATION PROVISIONS)

Also bearing in mind ..... (ADAPTATION DECISIONS)

1. Option 1: Decides to establish an adaptation fund to distribute financial assistance to adaptation projects and measures from the share of proceeds from project activities under [Article 6[9] and] the clean development mechanism [and from transactions under Article 17] to be used to assist developing country Parties[10] that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;

Option 2: Decides to establish an adaptation fund to assist developing country Parties that are particularly vulnerable, as listed in Article 4.8 of the Convention, to meet the cost of adaptation. The adaptation fund shall be based on the share of proceeds from project activities under Article 6, from certified project activities under Article 12 and from transfers and acquisitions of part of assigned amounts under Article 17;

2. Decides further that the adaptation fund shall be managed by [an existing institution to be determined by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol] [the entity entrusted with the operation of the financial mechanism of the Convention];

3. Option 1: Also decides that Parties not included in Annex I shall submit to the adaptation fund proposals for adaptation projects and measures for which they seek financial assistance;

Option 2: Also decides that Parties not included in Annex I shall identify adaptation projects for funding, following a process of adaptation project identification and submit requests for financial assistance to the adaptation fund;

4. Further decides that funding for adaptation projects under the adaptation fund shall be consistent with ongoing work on adaptation under the Convention. Parties not included in Annex I shall be assisted with capacity-building at all levels in order to be able to carry out such activities;

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[9] 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

[10] 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

5. Also decides that adaptation projects and measures receiving financial assistance from the adaptation fund shall:

(a) Be country-driven;

(b) Be in conformity with national strategies and priorities for the sustainable development of the Party concerned and address the specific vulnerabilities identified in the Party's national communications, in a manner consistent with work on adaptation under the Convention;

(c) Be consistent with relevant international agreements and internationally agreed programmes of action for sustainable development;

(d) Have been subject to a social and environmental impact assessment;

(e) Be formulated taking account of decision 11/CP.1, paragraph 1 (d) (i) and (ii) (FCCC/CP/1995/7/Add.1);

(f) Be implemented in a cost-effective manner;

(g) Be subject to the same level of monitoring and reporting as clean development mechanism projects;

6. Decides further that adaptation projects and measures receiving financial assistance from the adaptation fund shall be selected in accordance with, inter alia, a vulnerability index, to be established and maintained by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which shall prioritize [adaptation projects and measures] [Parties not included in Annex I which are particularly vulnerable to the adverse effects of climate change], [giving added priority to those Parties not included in Annex I which, in addition to qualifying as particularly vulnerable to the adverse effects of climate change, have generated certified emission reductions under the clean development mechanism].

[Note: Further elaboration may be required regarding the management and disbursement of the adaptation fund and further action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.]<

PART THREE
ARTICLE 17 OF THE KYOTO PROTOCOL

I. *[Draft decision [C/CP.6]: Principles, modalities, rules and guidelines for emissions trading*

The Conference of the Parties,

Recalling Article 17 of the Kyoto Protocol,

Recalling its decision 1/CP.3, in particular paragraph 5 (b),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session on, inter alia, relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability of emissions trading, pursuant to Article 17 of the Kyoto Protocol,

Recalling also its decision 8/CP.4,

Recalling further its decision 14/CP.5,

Taking into account provisions contained in Articles 3 and 17 of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 17[1], the Parties[2] included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3 and that any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to this decision],

Also bearing in mind [Article 3, paragraphs 10 and 11] [that, in accordance with Article 3, paragraph 10, of the Kyoto Protocol, any emission reduction units, or any part of an assigned amount, which a Party acquires from another Party in accordance with the provisions of Article 6 or of Article 17 shall be added to the assigned amount for the acquiring Party and that, in accordance with Article 3, paragraph 11, of the Kyoto Protocol, any emission reduction units, or any part of an assigned amount, which a Party transfers to another Party in accordance with the provisions of Article 6 or of Article 17 shall be subtracted from the assigned amount for the transferring Party],

[Also bearing in mind that the purpose of emissions trading is to enable a Party included in Annex B to transfer a part of its assigned amount to another Party included in Annex B if the

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[1] 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

[2] 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

transferring Party, in the achievement of its commitment, has been able to limit or reduce its emissions [through domestic policies and measures] to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of its assigned amount not being used, which may be transferred to another Party included in Annex B seeking to acquire a part of assigned amount for offsetting domestic emissions exceeding its assigned amount.]

Affirming that, in their actions to achieve the purpose of emissions trading, the Parties shall be guided by Article 3 of the Convention and, inter alia, the following considerations:

>Equity: Equity between developed and developing country Parties, including equity with respect to per capita greenhouse gas emissions, wherein developed countries must contract greenhouse gas emissions per capita and developing countries coming on a converging path, so as to avoid perpetuating existing inequities between Parties included in Annex I and Parties not included in Annex I;<

>Recognizing that the Protocol has not created or bestowed any right, title or entitlement to the Parties included in Annex I to the Convention and in Annex B and that it has not created an international market system or regime;<

[Emissions trading is only for accounting of transfers and acquisitions of parts of assigned amounts between Parties included in Annex B for fulfilling their commitments under Article 3;]

Transparency;

[Climate change effectiveness: Real, measurable and long-term benefits related to the mitigation of climate change shall be achieved.] [Overall emission reductions must not be lower than would otherwise be the case],

Fungibility/non-fungibility: Parties [may] [may not] exchange emission reduction units[, certified emission reductions] and [assigned amount units] [parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to ensure their effective environmental equivalence].

1. Decides to adopt the above principles and the modalities, rules and guidelines[, in particular for verification, reporting and accountability] for emissions trading [pursuant to Article 17 of the Kyoto Protocol] contained in the annex to this decision;

2. [Further decides that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have the authority to accept or reject acquisitions and transfers of parts of assigned amount that have been reported by the Parties participating in emissions trading;]

3. Urges the Parties concerned to facilitate the participation of Parties included in Annex I with economies in transition in emissions trading;

4. [Decides that the share of proceeds to be used in accordance with Article 12, paragraph 8, shall be applied to Article 17 transactions and shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund. The share of proceeds for assisting in meeting adaptation costs shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol;]

5. [Also decides that any body authorized to carry out executive functions on behalf of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have a membership that reflects the unique representational balance established by the practice of the Parties (such as the Bureau of the Conference of the Parties)];

6. Decides [to review the modalities, rules and guidelines governing the operation of [the emissions trading system] [emissions trading under Article 17],] [that possible future revision of these modalities, rules and guidelines may be considered, taking into account the relevant experience of Parties,] bearing in mind that:

(a) The first review shall be carried out no later than in [2005] [2012] [2013];

(b) Further reviews shall be carried out [periodically thereafter] [at three-year intervals or upon the request of ...];

(c) [Changes in modalities, rules and guidelines shall start taking effect in the commitment period subsequent to that of their adoption;]

7. Requests [the secretariat of the Convention] to perform functions assigned to it as contained in the annex to this decision[1], in particular, to maintain a publicly accessible list of Parties that [are] [have been found to be] ineligible to participate in emissions trading under Article 17;

8. [Invites the Conference of the Parties], at its __ session,] to take decisions to:

(a) Define the roles of verification and auditing entities, including private sector entities;

(b) Issue guidelines on national allocation and accountability procedures for legal entities;

(c) Track the potential for distortion of competition and include standard checks in the guidelines.]]

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[1] The resource implications of this operative paragraph will need to be specified.

II. Annex

MODALITIES, RULES AND GUIDELINES FOR EMISSIONS TRADING

(Note: The following paragraphs refer to participation.)

Option A (para. 1):

1. A Party[1] included in Annex I to the Convention and Annex B to the Protocol may participate in emissions trading under Article[2] 17 if it:

(a) Has ratified the Protocol;

(b) [Is in compliance] [Is not found to be in non-compliance] with its commitments under Articles [3,] 5 and 7 of the Protocol [and Article 12 of the Convention] [in relation to emissions inventories and accounting for assigned amount] [and the rules and guidelines established for emissions trading and relevant provisions of the Protocol];

(c) >Is bound by the compliance regime adopted by the COP/MOP and has not been excluded from participating in emissions trading under Article 17 according to its procedures and mechanisms>, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17<;<

(d) [Adheres to] [Is not found to be in non-compliance with] the provisions regarding registries contained in decision D/CP.6;

(e) [Has had its inventory certified by an accredited independent entity according to international standards agreed by the COP/MOP;]

(f) [Has achieved sufficient emission reductions through domestic [action] [policies and measures].]

Option 2 (paras 2 and 3):

2. Prior to the start of the first commitment period, the expert review teams established under Article 8 shall review the observance by Parties of the following eligibility criteria for transfers and acquisitions under the provisions of Article 3:

(a) Ratification of the Protocol;

(b) >Being bound by the compliance regime adopted by the COP/MOP and not having been excluded from participating in emissions trading under Article 17 according to its

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[1] 'Party' means a Party to the Protocol, unless the context indicates otherwise

[2] 'Article' means an article of the Protocol, unless otherwise indicated.

procedures and mechanisms>, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17<;<

(c) The implementation of a national system for the estimation of anthropogenic emissions by sources and removals by sinks in accordance with the guidelines set out in decision -/CP.6;

(d) The establishment of a national registry system to track parts of an assigned amount, certified emission reductions and emission reduction units transferred or acquired under the provisions of Article 3, paragraphs 10, 11 and 12, in accordance with the guidelines set out in decision D/CP.6;

(e) The completeness and accuracy of the base year greenhouse gas emissions inventory and greenhouse gas inventory report, to standards [to be] established in a decision of the COP/MOP;

(f) The timely submission, completeness and accuracy of the last available annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(g) The submission of the last required periodic national communication, in accordance with the guidelines specified in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].

3. After the start of the first commitment period, the compliance body shall, based on the information submitted by the expert review teams, review and make decisions on the continuing observance of the following eligibility criteria:

(a) Submission of the annual greenhouse gas inventory and annual greenhouse gas inventory report by the date decided by the COP/MOP;

(b) Completeness and accuracy of the annual greenhouse gas inventory and annual greenhouse gas inventory report, to standards [to be] specified in a decision of the COP/MOP;

(c) Maintenance of the national registry system in accordance with the guidelines contained in decision D/CP.6;

(d) Submission of periodic national communications, in accordance with the guidelines contained in decision 4/CP.5 or as modified by subsequent decisions of the [COP] [and/or] [COP/MOP].

4. [A Party operating under Article 4 [may] [may not] [acquire] [transfer] [use] any part of assigned amount under Article 17 [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or if a regional economic

integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

5. [Arrangements made among subsets of Parties, including within regional economic integration organizations, shall be subject to the oversight of, and be accountable to, the COP/MOP.]

6. Changes in a Party's eligibility to participate in emissions trading, or changes pertaining to new entrants that meet the eligibility criteria, may occur during the current commitment period.

7. A Party included in Annex I to the Convention and Annex B to the Protocol eligible to participate in emissions trading may authorize its legal entities to transfer or acquire ERUs[3] [, CERs[4]] and [AAUs] [PAAs][5] under Article 17 [if the Party has established and maintains a national system for accurate monitoring, verification, accountability and allocation of [AAUs] [PAAs] to legal entities and for controlling the effects of trade on the Party's assigned amount, in accordance with appendix A].

8. A Party authorizing any legal entity to participate in emissions trading under Article 17 shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such transfers and acquisitions are consistent with [the principles, modalities, rules and guidelines for emissions trading applying to Parties] [the international guidelines for legal entities].

9. A Party participating in emissions trading shall report in accordance with appendix B.

10. A Party authorizing any legal entity to participate in emissions trading under Article 17 shall maintain an up-to-date list of legal entities resident in[, or operating in,] that Party authorized to participate in emissions trading under Article 17 and make it available to the secretariat and the public [through its national registry].

(Note: The following paragraphs refer to modalities of operation.)

11. Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] [shall] [may] take place through [bilateral and multilateral arrangements between Parties included in Annex I] [bilateral and multilateral arrangements and market exchanges] [an exchange]. >Any Party [or legal entity] wishing to transfer or acquire ERUs[, CERs] and [AAUs] [PAAs] shall publish the amount to be transferred prior to the transfer.<

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[3] An 'emission reduction unit' (ERU) is defined in accordance with decision D/CP.6.

[4] A 'certified emission reduction' (CER) is definedin accordance with decision D/CP.6.

[5] An ['assigned amount unit' (AAU)] ['part of assigned amount (PAA)] is defined in accordance with decision D/CP.6.

12. [Transfers and acquisitions shall be certified by an independent entity designated by the [COP] [COP/MOP], in accordance with rules, modalities and guidelines adopted by the [COP] [COP/MOP].]

13. Option 1: There shall be a [true-up] period [of __ [days] [months], starting from the end of each commitment period and ending with the compliance deadline] [ending __ days after the publication of the final report of the expert review of the inventory of the last Party to be reviewed for the last year of the commitment period], during which Parties may acquire ERUs[, CERs] and [AAUs] [PAAs] for the purpose of eliminating any excess of emissions over assigned amount. A Party, or legal entity, for which emissions at the end of the commitment period exceed its assigned amount, taking account of transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs], calculated in accordance with Article 3, may not transfer ERUs[, CERs] and [AAUs] [PAAs].

Option 2: For [one] month after [the publication of the final report of the expert review of the inventory of the last Party to be reviewed for the last year of the commitment period] [the date decided by the COP/MOP for the completion of the expert review of the inventories for the last year of the commitment period], each Party may acquire or transfer [AAUs] [PAAs] from the commitment period in question in order to fulfil its commitments under Article 3, paragraph 1, for that period.

(The following paragraphs relate to the share of proceeds.)

14. [A share of proceeds, defined as a percentage of the [[AAUs] [PAAs] transferred] [value of each emissions trading transaction], shall be used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.]

15. [Option 1: The amount of the share of proceeds to be used to cover administrative expenses shall be assessed by [YYY] and retained by [ZZZ]. The [remaining] amount of the share of proceeds to be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation shall be transferred to an adaptation fund to be established by the [COP] [COP/MOP].]

16. [Option 2: The share of proceeds to assist in meeting adaptation costs shall be the same as for Article 12, paragraph 8.]

(Note: The following paragraphs refer to issues related to compliance. The term "invalidated" may need to be considered further.)

17. Option 1: Originating Party liability: A Party whose actual emissions for the commitment period after the compliance deadline exceed its assigned amount, taking account of transfers and acquisitions of ERUs, CERs and [AAUs] [PAAs], calculated in accordance with Article 3, shall be subject to the provisions of the compliance regime adopted by the COP/MOP.

Option 2: Shared liability: If a Party is found to be in non-compliance with its commitments under Article 3, a portion of any of its [AAUs] [PAAs] that have been transferred to other Parties under the provisions of Article 17 shall be invalidated and cannot be used for the purpose of meeting commitments under Article 3 or further traded. The portion to be invalidated shall be a multiple of the degree of non-compliance. The degree of non-compliance is the percentage difference between emissions in the commitment period and the assigned amount, taking account of transfers and acquisitions of ERUs, CERs and [AAUs] [PAAs], calculated in accordance with Article 3.

Option 3: Acquiring Party liability: If a Party included in Annex I is in non-compliance with its commitments under Article 3, that part of the assigned amount that has been transferred in accordance with Article 17 shall be invalidated.

Option 4: 'Trigger': If a question is raised concerning a Party's compliance with its commitments under Article 3 and the Party is subsequently found to be in non-compliance, any [AAUs] [PAAs] that have been transferred to other Parties under the provisions of Article 17 after the point in time at which the question was raised shall be invalidated and cannot be used for the purpose of meeting commitments under Article 3, or further traded. Such questions can only be raised in particular circumstances to be defined.

Option 5: Compliance reserve: A portion [x per cent] of every transfer of [AAUs] [PAAs] under Article 17 shall be placed in a compliance reserve. These [AAUs] [PAAs] may not be used or traded. At the end of the commitment period, such [AAUs] [PAAs] shall be returned to the Parties of origin if those Parties are in compliance with their commitments under Article 3, in which case the [AAUs] [PAAs] can be transferred or banked for future commitment periods. If, at the end of the commitment period, a Party is not in compliance with its commitments under Article 3, an appropriate portion of units deposited in the reserve account shall be invalidated, in which case it may not be further used or traded.

Option 6: Commitment period reserve: A portion of the assigned amount of each Party included in Annex I shall be placed in a commitment period reserve. This portion shall be determined by projecting emissions for 2008-2012 for each Party included in Annex B on the basis of emissions for 2000-2006, as reviewed and verified pursuant to Articles 5 and 8. The portion of the assigned amount placed in the commitment period reserve for each Party included in Annex B shall equal its projected emissions for 2008-2012 and shall not be used or traded. At the end of the commitment period, Parties which are in compliance with their commitments under Article 3 may transfer or bank PAAs held in the commitment period reserve.

Option 7: Units in surplus to plan: Emissions trading under Article 17 shall operate under an annual post-verification trading system limited to [AAUs] [PAAs] determined to be surplus to a Party's allocation plan. Each Party that wishes to undertake transfers under Article17 shall allocate its total assigned amount among the five years of the commitment period and notify the secretariat of these annual allocations prior to the start of the commitment period.

A Party can at any time adjust its annual allocation for the remaining years of the commitment period by notifying the secretariat in advance of the year(s) in question. The assigned amount allocation to any single year should not exceed plus or minus 20 per cent of the total assigned amount divided by five.

Excess [AAUs] [PAAs] for a given year shall be calculated as follows:

(a) Cumulative assigned amount allocation from the beginning of the commitment period through the given year;

(b) Less cumulative emissions from the beginning of the commitment period through the given year;

(c) Less the amount of excess [AAU] [PAA] certificates issued for previous years of the commitment period and cumulative ERUs transferred under Article 6 (holdings of ERUs and CERs shall not be included in the calculation).

The secretariat shall verify the availability of excess [AAUs] [PAAs] and issue certificates for them. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules.

Option 8: Surplus units: Only excess reductions may be transferred and acquired under Article 17. The assigned amount is the emission reduction commitment of a developed country Party. A Party included in Annex I to the Convention and in Annex B may transfer a part of its assigned amount to another such Party under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17.

18. >If a question of compliance by a Party with the eligibility criteria for emissions trading under Article 17 is identified by the review process under Article 8, transfers and acquisitions of [AAUs] [PAAs] may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved in favour of the Party in question. Such a question shall be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialized procedure].<

Appendix X (to the annex to decision C/CP.6 on emissions trading)

Supplementarity

Limits on acquisitions

19. Option 1: No elaboration of the term "supplemental".

Option 2: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Article 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 3 (i): Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 3 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 4: Access to Article 17 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitment] under Article 3. [A concrete ceiling for the total assigned amount acquired from the emissions trading under the Article 17 shall be defined in quantitative and qualitative terms based on equitable criteria] [A quantified ceiling on the emissions limited and reduced through

the mechanisms pursuant to Articles 6, 12 and 17 shall be defined. Commensurate non-compliance processes must be prescribed].

A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B under Article 17, if the transferring Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions. Transfers and acquisitions under 'emissions trading' in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Only the excess limitation and reduction of emissions by a Party included in Annex B, resulting in the prevention of a part of its assigned amount of emissions, and nothing else, can be transferred and acquired under Article 17. Nothing else can be transferred and acquired under Article 17.

Option 5: It is necessary to set limits on the use of mechanisms pursuant to Articles 6, 12 and 17 to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods.

>Limits on transfers

20. Option 1: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment;

Option 2 (i): Net transfers by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:

$$5 \text{ per cent of: } \frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment

period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Option 2 (ii): The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

Option 3: Access to Article 17 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in fulfilment of commitments"] [domestic policies and measures being the principal means of achieving its quantified emission limitation and reduction commitments] under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be defined. Commensurate non-compliance processes must be prescribed.

A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B under Article 17, if the transferring Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions. Transfers and acquisitions under 'emissions trading' in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Only the excess limitation and reduction of emissions by a Party included in Annex B, resulting in the prevention of a part of its assigned amount of emissions, and nothing else, can be transferred and acquired under Article 17. Nothing else can be transferred and acquired under Article 17.

Option 4: It is necessary to set limits on the use of mechanisms pursuant to Article 6, 12 and 17 to meet emission targets in the first commitment period. However, if objective criteria to prevent hot air are established, it might be reasonable to remove limits in the second and third commitment periods.]<

[Issues related to Article 4]

21. [Any limitations on the transfer or acquisition of assigned amount under Article 17 shall apply to the allocation of emission levels under Article 4.]

22. [Any limitations on the transfer or acquisition of assigned amount under Article 17 shall apply to each individual Party operating under Article 4.]

23. [Re-allocations under Article 4 shall count against the limitations referred to in paragraph 20 above.]

Appendix A (to the annex to decision C/CP.6 on emissions trading)

Domestic systems

(Note: Some Parties propose that guidelines be elaborated on the establishment, maintenance and international compatibility of national systems for accurate monitoring, verification, accountability and allocation of [AAUs] [PAAs] to legal entities (see document FCCC/SB/1999/8, para. 155, option 1). Some Parties do not support this proposal and consider that this appendix is not necessary (see document FCCC/SB/2000/MISC.1).)

Appendix B (to the annex to decision C/CP.6 on emissions trading)

Reporting by Parties

(Note: This appendix relates to all mechanisms and is repeated in each mechanisms decision. It could alternatively be incorporated into the guidelines to be adopted under Article 7.)

24. In accordance with the guidelines under Article 7 [and Article 5, paragraph 2], each Party included in Annex I shall incorporate in its annual inventory of anthropogenic emissions by sources and removals by sinks, the following information:

(a) Holdings of ERUs, CERs and [AAUs] [PAAs] in its registry at the [beginning] [end] of the year, identified by serial numbers;

(b) Initial transfers of ERUs and issuance of CERs and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(c) Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] to and from its registry during the year, identified by serial and transaction numbers;

(d) Retirement of ERUs, CERs and [AAUs] [PAAs] from its registry during the year, identified by serial and transaction numbers;

(e) ERUs, CERs and [AAUs] [PAAs] to be banked forward to a subsequent commitment period, identified by serial number;

(f) A uniform resource locator (URL) in the Internet from which up-to-date information may be downloaded on names and contact details of legal, private and public entities, resident within the jurisdiction of the Party, which are authorized or approved to participate in the mechanisms pursuant to Articles 6, 12 or 17.

25. In accordance with the guidelines under Article 7, each Party included in Annex I shall incorporate information on the following into its national communication:

(a) Project activities under Articles 6 and 12;

(b) How its CDM project activities have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;

(c) An estimate of the expected contribution that acquired CERs will make towards compliance with its quantified emission limitation and reduction commitment under Article 3 and the expected contribution of domestic actions.

26. Parties not included in Annex I shall report on CDM project activities to which they are host in the context of their reporting commitments under Article 12 of the Convention. This reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3.

Appendix C (to the annex to decision C/CP.6 on Article 17)

[Determination and allocation of the share of proceeds

27. The share of proceeds shall be defined in accordance with the following provisions, or any subsequent revisions to them adopted by the COP/MOP:

(a) The share of proceeds is defined as a proportion of the number of transfers of [AAUs] [PAAs] transferred between Parties included in Annex B under Article 17;

(b) The level of the share of proceeds is __ per cent;

(c) Option 1: No more than __ per cent of the amount of the share of proceeds shall be used to cover administrative expenses. The remaining amount of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an adaptation fund established by the COP/MOP.

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives].

PART FOUR
REGISTRIES

I. *[Draft decision [D/CP.6]: Rules and guidelines for registries*

The Conference of the Parties,

Recalling its decision 7/CP.4 on a work programme on mechanisms,

Recommends that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session after the entry into force of the Protocol, adopt the following decision:

Decision -/[CMP.1]

Rules and guidelines for registries

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Bearing in mind Article 3, paragraphs 3, 4, 7, 10, 11, 12 and 13, of the Kyoto Protocol,

Bearing in mind also its decision 9/CP.4,

Affirming that activities pursuant to Articles 6, 12 and 17[1] must be subject to accurate and verifiable systems of accounting,

Having considered decision D/CP.6,

1. Decides to adopt the rules and guidelines for registries contained in the annex to this decision.

2. Requests [the secretariat of the Convention] to perform functions assigned to it as contained in the annex to this decision[2].]

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[1] 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

[2] The resource implication of this operative paragraph will need to be specified.

II. Annex

RULES AND GUIDELINES FOR REGISTRIES

1. Each Party included in Annex I [with a quantified emission limitation and reduction commitment inscribed in Annex B] participating in the mechanisms shall have established and shall maintain a national registry to ensure the accurate accounting of [assigned amount] [ERUs[1], CERs[2] and [AAUs[3]] [PAAs[4]]].

2. >Option 1: A [registry] [database] shall have been established and shall be maintained for each Party not included in Annex I participating in the CDM [to ensure the accurate accounting of CERs [held by the Party]] [to record the issuance of CERs associated with CDM project activities to which it is host]. >Such a Party may establish and maintain such a [registry] [database] on its own or request the [executive board] [secretariat] [system registry] to do so on its behalf.<<

Option 2: A central registry should be established by the executive board with the aim of tracking the generation, [transfer] and retirement of CERs.

3. Any two or more Parties may voluntarily maintain their national registries in a consolidated system, within which each national registry would remain legally distinct.

4. [A system registry, linked electronically to all national registries, shall be established and maintained [by the secretariat].]

(Note: See functions for a possible system registry in paragraph 18.)

5. Each Party shall identify an organization to maintain the national registry on behalf of the Party and perform the necessary functions (the registry 'administrator').

6. Registries shall be kept in the form of computer databases. The design of registries shall be compatible and their format shall conform to the guidelines contained in appendix W *[to be*

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[1] An 'emission reduction unit' (ERU) shall be equal to one tonne of carbon dioxide equivalent emissions reduced or sequestered through an Article 6 project, calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.

[2] A 'certified emission reduction' (CER) shall be equal to one tonne of carbon dioxide equivalent emissions reduced [or sequestered] through a CDM project, calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.

[3] An 'assigned amount unit' (AAU) refers to a part of assigned amount equal to one tonne of carbon dioxide equivalent emissions, calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5 [allocated by a Party in Annex B to its authorized legal entities].

[4] A 'part of assigned amount' (PAA) is a part of the assigned amount of a Party included in Annex B as defined in Article 3, paragraph 7, equal to one tonne of carbon dioxide equivalent emissions, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.

drafted]. Each ERU, CER and [AAU] [PAA] shall be held in only one account in one registry at a given time.

7. >Each Party shall have a holding account within its national registry. Where a Party authorizes legal entities to hold ERUs, CERs and/or [AAUs] [PAAs], under its responsibility, in the Party's national registry, each such holder of ERUs, CERs or [AAUs] [PAAs] shall have a separate holding account within that Party's national registry. An account number and account information shall be assigned to each account in a national registry, in accordance with section A of the appendix.<

8. Serial numbers shall ensure that each ERU, CER and [AAU] [PAA] is unique and shall be constructed in accordance with section B of the appendix. Serial numbers shall be assigned as follows:

(a) In the case of an [AAU] [PAA], a serial number shall be assigned at the time that a Party's assigned amount, pursuant to Article 3, paragraphs 3, 4 and 7, is issued into its national registry. Such assigned amount shall be issued into the registry in accordance with the guidelines detailed in appendix X *[to be drafted]*;

(b) In the case of an ERU, a serial number shall be assigned by adding a project identifier, specified by the registry administrator of the host Party, to the serial number of an [AAU] [PAA], at the time of initial transfer >to another account in another [national] registry<;

(c) In the case of a CER, a serial number shall be assigned [by the system administrator working under the authority of the executive board] [by the system registry], [as part of the issuance procedure] [at the time the decision is made to issue the CER].

9. [Each national registry of a Party included in Annex B shall contain a dedicated account for the certified excess [AAUs] [PAAs] held by that Party. Upon verification of the availability of excess [AAUs] [PAAs] and the issuance of certificates for them by the secretariat, excess [AAUs] [PAAs] shall be transferred from their account of origin into this account of excess [AAUs] [PAAs].]

10. Any initial transfer of ERUs as a result of projects under Article 6 shall result in a change of holdings in the appropriate accounts (a debit of [AAUs] [PAAs] in the transferring account and a credit of ERUs in the acquiring accounts). This shall be achieved by converting [AAUs] [PAAs] to ERUs, through the addition of the project identifier to the serial numbers of the [AAUs] [PAAs], and moving the resulting ERUs to other accounts, on the basis of the distribution agreement between the project participants. The initial transfer of ERUs shall be initiated by the host Party to the project. The host Party shall also specify which [AAUs] [PAAs] are to be converted to ERUs.

11. Any issuance of CERs as a result of projects under Article 12 shall result in a change of holdings in the acquiring accounts (a credit of CERs). [Such issuance shall be made by the executive board directly into the acquiring account on the basis of the distribution agreement

between project participants.] [Upon receipt of a final report confirming the certification of a quantity of CERs based on a project, a system administrator working under the authority of the executive board will:

(a) Assign each CER a unique serial number;

(b) Transfer CERs into accounts of appropriate registries for project participants (according to their distribution agreement reflected in the verification/certification report);

(c) Transfer CERs into the registry where the share of proceeds will be held.]

12. Any transfer of [ERUs, CERs and] [AAUs] [PAAs] between accounts shall result in a change of holdings in the appropriate accounts (a debit in the transferring account and a credit in the acquiring account). This shall be achieved by moving specific serialized [ERUs, CERs or] [AAUs] [PAAs] from one account to the other. [The transfer of [ERUs, CERs and] [AAUs] [PAAs] shall be initiated by the current holder directing the administrator of its national registry to transfer the [ERUs, CERs or] [AAUs] [PAAs] to another account] [The secretariat shall undertake the transfer of [AAUs] [PAAs] upon verifying the availability of excess [AAUs] [PAAs] and issuing certificates for them].

13. [Agreements among Parties pursuant to Article 4 to fulfil their commitments jointly shall be effectuated through transfers of assigned amount between the registries of the Parties participating in the Article 4 agreement.]

14. Transactions shall [occur in near real time (maximum one working day)] [be immediately recorded in the relevant registries (within one working day)].

15. Option 1: A transaction number shall be automatically assigned to each transaction by [the registry administrator of the transferring registry] [the system registry], in accordance with section C of the appendix. In addition, each national registry shall record the information specified in section C of the appendix for all transactions involving its accounts.

Option 2: The secretariat shall maintain an electronic 'transaction log' that records each issuance, transfer between registries, and retirement of assigned amount. Parties shall ensure that, as part of the transaction process, their registries send to the transaction log a record of each issuance, transfer and acquisition between registries and retirement of assigned amount. In the case of a transfer between national registries:

(a) The transferring Party shall send the record upon initiation of the proposed transfer to both the transaction log and the acquiring registry;

(b) The transaction log shall, based on an automated electronic check, notify both the transferring registry and the acquiring registry whether there is any discrepancy concerning the part of assigned amount being transferred (i.e., units previously retired, duplicated units, units not previously reported as issued);

(c) Assuming the notification of the transaction log indicates no discrepancy, the acquiring Party shall send the record upon completion of the transfer to both the transaction log and the transferring registry.

16. Parties included in Annex I with an emission limitation or reduction commitment inscribed in Annex B [which are participating in the mechanisms] shall retire ERUs, CERs and [AAUs] [PAAs] into a dedicated retirement account for the purpose of demonstrating compliance with their commitments under Article 3, paragraph 1. Such units cannot be further transferred or acquired. [Each national registry of a Party included in Annex I shall include such a retirement account for each commitment period] [Such retirement accounts shall be established and maintained for each commitment period [by the secretariat in a retirement registry] [in the system registry]].

17. >Any account holder may transfer ERUs, CERs and [AAUs] [PAAs] to a dedicated cancellation account. Such units cannot be further transferred and may not be used by a Party for the purpose of meeting its commitments under Article 3. [Each national registry of a Party included in Annex I shall include such a cancellation account for each commitment period] [Such a cancellation account shall be established and maintained for each commitment period in the system registry].<

18. Each national registry shall record the information specified in section D of the appendix for all projects under Article 6 >and 12< to which it is host.

19. Each registry[, including the system registry,] shall provide a user-friendly, publicly accessible user interface that allows interested persons to query and view non-confidential information contained in the registry. A registry shall allow interested persons to retrieve [reports] [information] including, but not limited to, the following:

(a) Account information, by account number;

(b) A list of assigned amount [issued] [transferred] into the registry as [AAUs] [PAAs], by serial number;

(c) A list of ERUs transferred into the registry as a result of projects under Article 6, by serial number;

(d) A list of CERs [issued] [transferred] into the registry as a result of projects under Article 12, by serial number;

(e) A list of ERUs transferred >or CERs issued< from projects hosted by the Party;

(f) The current account balance and holdings of ERUs, CERs and [AAUs] [PAAs] of each account in the registry, by serial number;

(g) The quantities of non-retired ERUs, CERs and [AAUs] [PAAs] in a registry;

(h) A list of ERUs, CERs and [AAUs] [PAAs] retired for compliance purposes for each commitment period, by serial number;

(i) A list of any changes, and reasons for the changes, to holdings of ERUs, CERs and [AAUs] [PAAs];

(j) The prices at which [AAUs] [PAAs] have been traded.

20. The expert review under Article 8 shall review the integrity of national registries. The integrity of national registries shall be provided for through specific provisions controlling the implementation of relevant provisions in this appendix.

21. [The system registry shall fulfil the following functions:

(a) Establish and maintain [registries] [[databases] to [ensure the accurate accounting of CERs on behalf of Parties not included in Annex I wishing to participate in the CDM] [record the issuance of CERs];

(b) Maintain retirement accounts for each Party included in Annex I for each commitment period;

(c) Maintain a cancellation account for each commitment period;

(d) Maintain the commitment period reserve for each Party included in Annex B;

(e) Assign serial numbers to CERs at the request of the executive board;

(f) Assign transaction numbers, automatically, at the time a transaction is initiated;

(g) Provide up-to-date information on total holdings of ERUs, CERs and [AAUs] [PAAs] in all national registries;

(h) Maintain downloadable information for Article 6 or CDM projects identified in section D of the appendix including, as applicable, project design documents, validation reports, notification of registration, monitoring reports, verification reports, notification of certification and notification of issuance of ERUs and CERs;

(i) Monitor the integrity of the overall registry system, including national registries, and ensure that relevant information is available to the public.]

Appendix (to the annex to decision D/CP.6 on registries)

PUBLICLY ACCESSIBLE INFORMATION TO BE CONTAINED IN A PARTY'S NATIONAL REGISTRY

A. Account information

22. Account numbers shall be constructed of the following elements:

(a) Party identifier. This shall identify the Party in whose registry the account is maintained and shall use the two-letter code defined and maintained by the International Organization for Standardization (ISO) (ISO 3166);

(b) [Account type. This shall identify the type of account as follows:

(i) 'PTY' indicates an account held by a Party;

(ii) 'ENT' indicates an account held by a legal entity;

(iii) 'CAN' indicates a cancellation account;

(iv) 'Rxx' indicates a retirement account, where 'xx' indicates the compliance period for which units held in the account shall be used;]

(Note: Some Parties propose that information relating to the account type should not be included in the account number (see paragraph 23 (b) and (c) below).)

(c) A unique number. This shall identify the specific account, using a number unique to that account within the registry;

23. Account information assigned to each account shall include:

(a) Account name. This shall identify the holder of the account;

(b) [Account type. This shall identify the type of account as follows:

(i) 'R' indicates a retirement account;

(ii) ['C' indicates a cancellation account;]

(iii) 'O' indicates an account other than a retirement [or cancellation] account.]

(c) Account commitment period. Each retirement account shall identify the commitment period for which it is associated. For other accounts, this may be left blank;

(d) Representative name. This shall identify the person representing the holder of the account and shall include the full name of the representative;

(e) Representative identifier. This shall assign a number to the representative of the account holder, using the two-letter ISO country code (ISO 3166) and a number unique to that representative within that registry;

(f) Representative contact information. This shall identify the mailing address, telephone number, facsimile number and[/or] email address of the representative of the account.

B. Serial number information

24. The serial number [for each unit] [for each block of units] shall be constructed of the following elements:

(a) Country of origin. In the case of [AAUs] [PAAs] and ERUs, this shall identify the Party which issued the assigned amount associated with the units into its registry. In the case of CERs, this shall identify the host Party to the project. The country of origin shall be identified using the two-letter ISO code (ISO 3166);

(b) Commitment period. This shall identify the commitment period for which the [unit] [block of units] is issued;

(c) Type. This shall identify the unit as an ERU, CER or [AAU] [PAA];

(d) Option 1: A unique number. This shall identify the specific unit, using a number unique to that ERU, CER or [AAU] [PAA]for that commitment period and that country of origin. [Serial numbers shall be stored in blocks by starting and ending numbers];

Option 2: Unique starting and ending numbers. These shall identify the first and last numbers in a block of ERUs, CERs or [AAUs] [PAAs], using numbers that are unique to those ERUs, CERs or [AAUs] [PAAs] contained in the block and for that commitment period and that country of origin. For a single ERU, CER or [AAU] [PAA], the starting and ending number shall be the same;

(e) Project identifier. Where applicable, this shall identify the project for which ERUs were initially transferred or CERs were initially issued, using a number unique to that Article 6 project or CDM project for that country of origin. [Each year of transfer or issuance from a project shall be allocated a different project identifier.]

C. Transaction information

25. The transaction number for each transaction shall be constructed of the following elements and recorded in the registry:

(a) >Commitment period. This shall identify the commitment period in which the transaction occurred;<

(b) [Transaction type. This shall identify the type of transaction as follows:

(i) 'IA' indicates the issuance of assigned amount into a registry;

(ii) >'IS' indicates the issuance of assigned amount into a registry based on activities under Article 3, paragraphs 3 and 4;<

(iii) 'JI' indicates the initial transfer of ERUs pursuant to Article 6;

(iv) 'IC' indicates the issuance of CERs pursuant to Article 12;

(v) 'TR' indicates the transfer of units between accounts and/or registries;

(vi) 'RT' indicates a transfer into the retirement account;

(vii) >'CA' indicates a transfer into the cancellation account;<]

(Note: Some Parties propose that information relating to the transaction type should not be included in the account number (see paragraph 26 (c) below).)

(c) Country of origin. This shall identify the registry initiating the transaction. The country of origin shall be identified using the two-letter ISO code (ISO 3166);

(d) Option 1: A unique number. This shall identify the specific transaction, using a number unique to that transaction for that commitment period and that transferring Party. This unique number shall be assigned by the transferring Party;

Option 2: A unique number. This shall identify the specific transaction, using a number unique to that transaction for that commitment period. This unique number shall be assigned sequentially by a dedicated database.

26. Transaction information, for each transaction number, shall include:

(a) Starting and ending serial numbers. This shall identify the serial numbers involved in the transaction, including starting and ending serial numbers for each block in the transaction. For a single ERU, CER or [AAU] [PAA], the starting and ending number shall be the same;

(Note: Multiple transactions and transaction numbers may be required where non-sequential serial numbers are involved.)

(b) [Transaction type. This shall identify the type of transaction as follows:

(i) 'IA' indicates the issuance of assigned amount into a registry;

(ii) >'IS' indicates the issuance of assigned amount into a registry based on activities under Article 3, paragraphs 3 and 4;<

(iii) 'JI' indicates the initial transfer of ERUs pursuant to Article 6;

(iv) 'IC' indicates the issuance of CERs pursuant to Article 12;

(v) 'TR' indicates the transfer of units between accounts and/or registries;

(vi) 'RT' indicates a transfer into the retirement account;

(vii) >'CA' indicates a transfer into the cancellation account;<]

(c) Transferring account number and acquiring account number. This shall identify the accounts transferring and acquiring the units;

(d) Transaction date and time. This shall identify the date and time at which the units are transferred [and acquired];

(e) Transaction status. This shall identify the transaction status as follows:

(i) 'P' indicates that the transaction is pending;

(ii) 'A' indicates that the receiving account has accepted the transaction;

(f) Transaction prices. This shall identify the prices at which units are traded.

D. Project information

27. Project information for each project under Articles 6 and 12 to which a Party is host, identified by the project identifier, shall include:

(a) Project name. This shall identify the project by a unique name;

(b) Project location. This shall identify the country and town or region of the project;

(c) Year or transfer/issuance. This shall identify the year in which the ERUs are initially transferred or in which the CERs are issued as a result of the project. [Each year of transfer or issuance from a project shall be allocated a different project identifier];

(d) Report link. This shall identify the uniform resource locator (URL) in the Internet where reports on the project activity can be downloaded>, including, as applicable, project design documents, validation reports, notification of registration, monitoring reports, verification reports, notification of certification and notification of issuance of ERUs and CERs<;

(e) Registration year. This shall identify the year in which the project was registered >with the executive board<;

(f) >Validation< independent/operational entity. This shall identify the independent or operational [entity] [entities] involved in >the validation of< the project;

(g) >Verification independent/operational entity. This shall identify the independent or operational entity involved in the verification of the project; <

(h) >Certification independent/operational entity. This shall identify the independent or operational entity involved in the certification of the project.<

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